

# **SOLANO COUNTY ASSESSMENT PRACTICES SURVEY**

## **FEBRUARY 1997**

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### **CALIFORNIA STATE BOARD OF EQUALIZATION**

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## FOREWORD

The adoption of Article XIII A (Proposition 13 and later Proposition 8) by the voters in 1978 brought about significant changes in the way local government and public schools are funded. This Constitutional article drastically reduced property tax revenues by rolling back both the assessed value and the tax rate. In addition, it placed restrictions on the growth of assessed values and prevented local agencies from increasing the property tax rate. Although the property tax is a "local" tax, local governments have almost no control over the amount of property taxes to be collected or how the taxes are allocated among the county, cities, special districts, and schools.

The Article XIII A assessment requirements significantly altered the county assessor's property valuation program. Instead of appraising all properties periodically in accordance with a cyclical plan, as was done prior to Article XIII A, most kinds of real property are reappraised only if there has been a change in ownership, new construction, or a decline in value. The fair market value as of the date of change in ownership is the "base year value," and subsequent assessments cannot be increased by more than 2 percent annually. If on any subsequent lien date the adjusted base year value exceeds the current fair market value of the property, the market value must be enrolled as the taxable value for that year. If there is new construction subsequent to the change in ownership, the value of the newly constructed property is determined and becomes an addition to the original base year value. This separate base year value is also subject to the maximum 2 percent annual increase in assessed value. Due to legislative definitions of what constitutes a change in ownership or new construction for property tax purposes, many types of ownership transfers and several types of construction are excluded from reassessment, although the assessor must nevertheless update the property ownership and physical characteristics records.

What does this mean to the assessor's valuation program? Under a cyclical reappraisal system, the assessor plans the reappraisal workload years in advance. Under the Article XIII A system, the assessor can only estimate workloads. In addition to discovering all changes in ownership and new construction, the assessor's staff must also analyze each such event to determine whether it is or is not subject to reassessment, as required by a complex set of constitutional and statutory requirements. Property tax appraisers must not only be skilled in appraisal techniques, but must also be more knowledgeable of property tax law under Article XIII A than under the previous system.

The recession of the early 1990's created additional complications for California counties and assessors. As a result of a weak real estate market, a large number of properties declined in value below the Article XIII A maximum, new construction and changes in ownership slowed greatly, and the changes in ownership that have occurred result in decreases or only modest increases in assessed value. Although the slowdown in new construction and changes in ownership decreased that portion of the assessor's workload, the decline in value problem has created an enormous increase in the workload for reappraisals and assessment appeals.

Because of property value declines, the rate of property tax revenue increases that had been experienced in the past lessened. At the same time, state budget problems have resulted in substantially reduced property tax allocations and other budgetary support for most counties. This has made it extremely difficult for most counties to provide adequate funding for assessors' offices as well as for many other important programs.

All of the factors discussed above contribute to making the local property tax a more difficult tax to administer, and seemingly more difficult to fund. Yet, the property tax continues to be one of the most important sources of revenue for local government and public schools. Further, the property tax continues to be the most visible of all state and local taxes; visible to those who pay the property tax and to all levels of government that are dependent upon it. This visibility and the continued importance of the tax require that good assessment practices, efficient administration, and total conformity with the law be achieved by all agencies involved in the administration of the property tax.

Although the primary responsibility for local property tax assessment is properly a function of county government, the State Board of Equalization has a number of duties in the property tax field imposed by the State Constitution and the Legislature. One of these duties is to conduct periodic surveys of local assessment practices. The Board's Assessment Standards Division conducts these surveys.

Assessment practices surveys are required by Sections 15640 through 15646 of the Government Code. These statutes require that a survey is to be repeated or supplemented at least once in every five years, which is the schedule for the current round of surveys. The surveys must include, at a minimum, a sampling of assessments of the local assessment roll followed by research in the assessor's office to determine the adequacy of the procedures and practices employed by the assessor in the valuation of taxable property; compliance with state law and regulations; the volume of assessing work and other duties to be done; and the assessor's needs for maps, records, equipment, supplies, and personnel. This survey focuses on tax revenue-related problems and compliance with statutes and regulations. Administration, personnel, systems, equipment, mapping, exemptions, fiscal needs, and the recorder's office are not reviewed or reported in this survey unless they relate directly to revenue or legal issues.

Within 90 days after receiving a copy, the county assessor may file a written response to the Board's findings and recommendations. The survey report, together with the county assessor's response and the Board's comments regarding the response, constitutes the final survey report which is distributed to the County Board of Supervisors, Assessment Appeals Board and the Grand Jury, the Governor, the Attorney General, the Senate, and the Assembly.

Fieldwork for this report was conducted by Assessment Standards Division staff during March and April of 1996. This report does not reflect changes implemented by the assessor after the field work was completed.

The Honorable Robert P. Blechschmidt, the Solano County Assessor/Recorder, and his staff gave us their complete cooperation during the assessment practices survey. We gratefully acknowledge their patience and good spirit during the interruption of their normal work routine.

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Department of Property Taxes  
California State Board of Equalization  
February 1997

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## I. INTRODUCTION, SUMMARY, RECOMMENDATIONS, AND SUGGESTIONS

### A. INTRODUCTION

Section 15640 of the Government Code, in part, mandates that the State Board of Equalization shall:

"... make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her. The survey shall include a sampling of assessments from the local assessment rolls sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county. . . ."

It is apparent from this language that the Legislature envisioned the Board's appraisal sampling and its office survey to be parts of a single, connected process, i.e., the evaluation of how well the county assessor is carrying out his or her sworn duty to properly assess all taxable property on the local tax roll. This evaluation was to be based both on actual field appraisals of sampled roll items and in-office interviews and research.

Section 15640 also states:

"The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process."

The way in which the sampling and survey process is carried out was developed after consultation with the county assessors by the staff of the Assessment Standards Division.

This report is the culmination of a review of the Solano County Assessor-Recorder's operation that began with ASD staff's appraisals of properties selected on the bases of assessment category and assessed value. The survey team members analyze the results of the assessment sampling, then examine current practices and procedures in key areas to see whether the most significant problems identified in the assessment sampling still exist in the assessor's operation. Finally, we offer positive courses of action, presented here as recommendations and suggestions, to help the assessor resolve problems identified in his or her program.



## Overview of the Solano County Assessment Roll

ASD's field appraisal team completed appraisals of 319 properties of all types assessed on the 1992-93 Solano County assessment roll. This roll contained a total of 120,558 assessments having a total enrolled value of \$16,122,456,633. (For a detailed explanation of ASD's assessment sampling program, see the Appendix at the end of this report). Sampling data indicated the roll was composed by assessment type and property type as follows:

<u>Assessment Type</u>	<u>No. of Assessments In County</u>	<u>Enrolled Value</u>
Base Year <u>1</u> /	54,195	\$ 4,865,327,951
Transfers <u>2</u> /	40,281	6,958,095,557
New Construction <u>3</u> /	12,217	3,268,440,571
Non-Prop. <u>13</u> <u>4</u> /	2,947	282,567,238
Unsecured <u>5</u> /	<u>10,918</u>	<u>748,025,316</u>
Totals	120,558	\$16,122,456,633

Regardless of the size of the county, the assessment of property for tax purposes is a formidable task. Proper administration of this task is vital both to government agencies in Solano County and to taxpayers. Because the job is so important and so complex, it is necessary for an independent agency such as the Board of Equalization to make periodic reviews of the assessor's operation. This survey report is the result of such a review of the Solano County Assessor's Office by the Board's Assessment Standards Division.

This survey was conducted according to the method mandated by Section 15642 of the Government Code. Following legislative direction, our survey primarily emphasizes issues that involve revenue generation or statutory mandate.

### B. SUMMARY

Revenue and Taxation Code Section 75.60 requires the Board of Equalization to certify that a county is eligible to recover the administrative costs of processing supplemental assessments. In order to be eligible, a county assessor must achieve an average assessment level that is at least 95 percent of the assessment level required by statute, as determined by the Board's Assessment Standards Division (ASD) in its assessment survey.

Based upon ASD's sampling of its 1992 roll, Solano County is eligible for reimbursement of the costs associated with administering supplement assessments. This implies that the assessor's program complies substantially with property tax statutes.

Overall, the assessment program in the Solano County Assessor's Office is administered and managed very effectively. We commend the assessor for his attention to the

appraiser certification requirements of continuing education, and what appears to be a high level of coordination and communication with the recorder's office and title companies for the discovery of transfers. In addition, the assessor has a good program of analyzing and comparing construction costs, both historical and published replacement costs, with the local markets.

He and his staff have taken the approach of actively seeking to identify properties that have declined in value, as opposed to waiting for the information to be brought to their attention. And there are efforts made to try and improve existing operations. For example, they are in the process of reviewing all California Land Conservation Act Properties (CLCA). This includes field reviews, interviews with taxpayers, record updating, as well as the rewriting of the current CLCA questionnaire in an attempt to improve and update correspondence with the taxpayer.

The assessor has obviously tried to maximize his resources by effectively utilizing computers in many segments of the assessment program like direct enrollment, improvement bonds, building permits, declines in value, supplemental assessments, comparable market data, and assessment appeals. In addition, the business property division has made significant improvements in its data processing system since our last survey.

In our Budget and Workload Comparisons report, we conclude that the assessor's office may be understaffed in real property appraisers, which is evidenced by the highest number of secured roll units per appraiser, when compared to other counties closest in roll size. At the same time, the Solano County Assessor/Recorder's Office not only had the second highest number of real property units worked, but also the highest number of units worked per appraiser (real property). This could be reflective of experience, education, training, and ability; and, it could also be reflective of a dedicated and hard working staff.

In the following paragraphs we summarize the recommendations and some of the suggestions we feel could help further improve Solano County's property assessment program.

Under the section entitled ADMINISTRATION, we note the need for dedicating a high level appraiser position to standards and quality control. The individual occupying this position could be instrumental in implementing many of the recommendations and suggestions contained in this survey report.

For example, of particular concern was the lack of coordination between the real and business property sections. Without a two-way or positive response system to ensure coordination, there is lack of proper referrals or follow up to referrals between the two sections.

Under REAL PROPERTY ASSESSMENT we recommend better utilization of the Change of Ownership Statement (COS) and application of proper penalties for lack of response as a way of adding to the sales data bank and improving appraisal accuracy.

Both the real property and business property sections continue to appraise tenant improvements depending on the type of assessment. We recommend procedural changes that will result in a more coordinated effort.

Since our last survey report several improvements have been made to the appraisal procedures for manufactured homes. Sale prices are now adjusted for personal property, assessment of accessory improvements is being emphasized, and development of a market data base for manufactured homes is planned. But we present a multi-part recommendation that calls for further improvements such as classifying and enrolling manufactured homes on the secured roll as personal property, reviewing manufactured homes for declines in value, and adjusting sales prices for park and location influences.

With respect to California Land Conservation Act Properties (CLCA), the assessor is in process of updating records and data bases, as well as rewriting the CLCA questionnaire; however, we noted improper treatment of non-living improvements not restricted by the CLCA contract. And, a flawed computer program used to value CLCA property does not account for risk when capitalizing land income. We recommend the assessor revise his assessment procedures for California Land Conservation Act properties.

Our review of the BUSINESS PROPERTY ASSESSMENT program resulted in several recommendations, the first of which is to develop a program for audit monitoring and evaluation. The lack of documented control of the audit process has resulted in the inability to track the status of an audit, monitor an auditor-appraiser's progress and production, quantify the volume of audits performed, or ensure timely completion of audits. This has caused a loss of revenues due to the expiration of the statute of limitations on audit liabilities. Consequently, the assessor cannot show that the legal requirements of Revenue and Taxation Code Section 469 for mandatory audits have been met.

We also recommend that the assessor direct his staff to program the electronic data system to combine the values on all business accounts countywide owned by the same individual or company in order to accurately test for the \$300,000 value criteria of a mandatory audit.

By including qualifying welfare-exempt organizations in the mandatory audit program, the assessor can verify that an organization qualifies for exempt status, and we recommend he do so. We also discuss and suggest monitoring the non-mandatory audit program by developing and maintaining an audit log.

We note that one way to ensure accurate reporting on the annual business property statement is to screen property statements for proper signatures on those statements filed on behalf of corporations, and reject those that do not meet regulatory requirements. We also suggest expanded use of the business property statement as a discovery tool through a more thorough review process and through mailings to prospects found in newspapers, telephone directories, etc.

Proper classification of property is essential to proper assessment due to differing valuation procedures used for real versus personal property. We recommend the assessor classify building fixtures and fixed machinery and equipment as improvements and classify structure items as real property on the tax roll.

Other business property recommendations include offsetting audit overassessments with underassessments, and using the audit narrative and workpapers to document changes in ownership.

## C. BUDGET AND WORKLOAD COMPARISONS

The following analysis utilizes the State Board of Equalization's A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessor's Offices, 1994-95. This report is a compilation and analysis of data by the Board's Assessment Standards Division originating from an annual questionnaire sent to all assessors.

The purpose of our analysis is to see how the Solano County Assessor/Recorder's Office compares with other counties that are similar in one or more important ways. We caution the reader that the budget and staffing of the Solano County Assessor/Recorder's Office, or that of its comparables, are not assumed to be adequate or proper. These comparisons are merely meant to illustrate how counties close in, say, total local roll units, compare in net budget, total staff, units worked per appraiser, etc. No two counties are exactly alike, and a variety of factors can greatly affect individual budget and workload comparisons.

### Total Roll Units and Net Roll Value

The primary criteria used in choosing comparables for the Solano County Assessor/Recorder's Office is Total Local Roll Units. Roll size could be indicative of a minimally acceptable staff and budget level. In other words, counties close in the number of roll units would presumably need similarly sized staff and budget. Of course, property type mix, ratio of rural to urban uses, and county size are also important influences and will be looked at with other tables, but in general, Total Local Roll Units is considered a valid starting point.

<u>County</u>	Total Roll <u>Units</u>	Total Secured Roll Units in <u>000's</u>	Total Un- secured Roll Units <u>000's</u>	Total Net Roll Value in <u>000's</u>
El Dorado	109,655	101,941	7,714	\$ 9,777,423
Placer	117,462	102,635	14,827	16,027,736
Monterey	127,178	105,988	21,190	20,309,266
Solano	134,774	122,837	11,937	18,107,228
Tulare	142,937	122,551	20,386	12,605,344
Santa Barbara	143,442	118,071	25,371	24,855,002
Stanislaus	148,231	125,271	22,960	17,798,224
San Luis Obispo	148,287	121,788	26,499	17,922,809

When compared to counties closest in roll size, Solano County is slightly above the average in Total Roll Units and close to the average in Total Net Roll Value. It is above average in Total Secured Roll Units, but, with the exception of El Dorado and Placer counties, is well below its comparables in Total Unsecured Units.

### Population, Total Roll Units, Gross Budget and Statewide Rankings

The same seven counties are now compared as to Population, Total Roll Units, Gross Budget and the Statewide Rankings for each of these categories.

<u>County</u>	<u>Population</u>	<u>Total Roll Units</u>	<u>Gross Budget</u>	<u>Ranking Population</u>	<u>Statewide by Total Roll Units</u>	<u>Gross Budget</u>
El Dorado	148,600	109,655	\$2,271,928	30	24	25
Placer	210,000	117,462	3,251,473	25	23	19
Monterey	371,000	127,178	2,919,149	20	22	22
Solano	377,600	134,774	2,409,848	19	21	24
Tulare	355,200	142,937	2,812,864	21	22	23
Santa Barbara	396,900	143,442	3,840,285	18	19	17
Stanislaus	420,000	148,231	3,103,944	17	18	20
San Luis Obispo	236,000	148,287	3,058,315	24	17	21

Population figures vary from a low of 148,600 in El Dorado County to a high of 420,000 in Stanislaus County, suggesting very dissimilar counties; however, like Total Roll Units, the Ranking Statewide by Gross Budget supports comparability.

### Distribution of Local Roll by Property Types (secured roll)

In order to look at the ratio of rural to urban uses, the next table shows how the counties' secured roll is dispersed among Residential (single and multi), Commercial, Industrial, and Vacant Land (all uses). Solano County has the highest number of Residential properties followed closely by Santa Barbara and Stanislaus Counties. In number of Commercial and Vacant Land properties, Solano County is at the low end, while being at midrange in the number of Industrials.

<u>County</u>	<u>Residential (single and multi)</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Vacant Land (all uses)</u>
El Dorado	56,611	1,696	322	21,383
Placer	70,247	2,801	573	20,053
Monterey	78,355	4,414	752	8,439
Solano	97,843	2,683	824	11,272
Tulare	88,730	4,936	947	in other grps
Santa Barbara	97,745	3,269	1,120	5,498
Stanislaus	96,239	4,935	1,587	10,397
San Luis Obispo	70,041	4,815	935	27,604

### Assessor's Budget vs. Assessment Roll

The next comparison is the amount of money budgeted per roll unit. The following table reflects Net Budget, Budget Per Roll Unit, and Roll Value Per Budget Dollar. With the exception of El Dorado County, Solano County has the lowest Net Budget among comparables with a correspondingly low Budget Per Roll Unit and one of the higher Roll Value per Budget Dollar.

<u>County</u>	<u>Net Budget</u>	<u>Budget Per Roll Unit</u>	<u>Roll Value Per Budget Dollar</u>
El Dorado	\$1,413,862	\$12.89	\$6.91
Placer	2,289,336	19.49	7.00
Monterey	2,915,149	22.92	6.97
Solano	2,137,221	15.86	8.47
Tulare	2,689,257	18.81	4.69
Santa Barbara	2,774,493	19.34	8.96
Stanislaus	2,663,501	17.97	6.68
San Luis Obispo	3,020,229	20.37	5.93

<u>County</u>	<u>Assessor and Other Managers</u>	<u>Real Property Appraisers</u>	<u>Business Property Appraisers</u>	<u>Total Staff</u>
El Dorado	3	16	2	46
Placer	5	20	4	65
Monterey	4	17	7	49
Solano	4	14	5	44
Tulare	2	23	7	53
Santa Barbara	7	25	6	69.8
Stanislaus	3	27	6	55
San Luis Obispo	5	24.5	4.5	67

### Total Workload Per Staff Member

Next we compare Total Roll Units Per Manager, Secured Roll Units Per Appraiser, Unsecured Roll Units Per Auditor-Appraiser, and Total Roll Value Per Staff Member. As previously shown, the Solano County Assessor's Office had the lowest number of Real Property Appraisers and Total Staff among counties with a comparable workload. Not surprisingly, Solano County reflects the highest Secured Roll Units Per Appraiser and is at the top end of the range in Total Roll Value Per Staff Member.

<u>County</u>	<u>Total Roll Units Per Manager</u>	<u>Secured Roll Units Per Appraiser</u>	<u>Unsecured Roll Units Per Auditor- Appraiser</u>	<u>Total Roll Value Per Staff Member</u>
El Dorado	36,551	6,371	3,857	\$212,552
Placer	23,492	5,132	3,706	246,580
Monterey	31,794	6,235	3,027	414,475
Solano	33,693	8,774	2,387	411,528
Tulare	71,468	5,328	2,912	237,836
Santa Barbara	20,492	4,723	4,228	356,089
Stanislaus	49,410	4,640	3,826	323,604
San Luis Obispo	29,657	4,971	5,888	267,504

### Units Worked Per Appraiser

The following table shows how Solano County compares in Real Property Units Worked Per Appraiser and Unsecured Units Worked Per Auditor-Appraiser.

<u>County</u>	<u>Number of Real Property Units Worked</u>	<u>Units Worked Per Appraiser</u>	<u>Number of Unsecured Units Worked</u>	<u>Units Worked Per Auditor- Appraiser</u>
El Dorado	37,700	2,356	9,069	4,534
Placer	38,516	1,926	11,757	2,939
Monterey	30,805	1,812	19,332	2,762
Solano	50,525	3,609	11,755	2,351
Tulare	15,912	692	2,884	412
Santa Barbara	31,134	1,153	22,736	3,789
Stanislaus	56,438	2,090	19,507	3,251
San Luis Obispo	34,663	1,415	22,232	4,940



The comparisons are consistent, Solano County ranks second highest in Number of Real Property Units Worked and highest Units Worked Per Appraiser due to its lower number of real property appraisers. Except for Tulare County, Solano County is the lowest in Units Worked Per Auditor-Appraiser which is reflective of a lower number of unsecured roll units. These figures could also be reflective of appraiser experience, education, training, or ability.

#### Real Property Activity

Solano County was shown to be high in the number of secured roll units per appraiser. The following table examines how much of each county's real property activity is devoted to Total Transfers, New Construction, Proposition 8, and Miscellaneous Roll Changes.

<u>County</u>	<u>Total Transfers</u>	<u>New Construction</u>	<u>Proposition 8</u>	<u>Misc. Roll Changes</u>
El Dorado	13,352	2,614	15,171	2,351
Placer	8,370	2,960	3,521	11,163
Monterey	7,460	2,058	4,500	6,694
Solano	16,629	1,224	10,000	6,778
Tulare	8,234	n/a	n/a	7,194
Santa Barbara	4,608	2,817	1,446	5,099
Stanislaus	18,304	6,782	2,015	6,391
San Luis Obispo	10,260	407	1,109	10,565

Among its comparables, Solano County is at the top end in Total Transfers and Proposition 8's, about midrange in Miscellaneous Roll Changes, and low in New Construction.

### Business Property Activity

Typical business property work is divided into six categories as a means of comparing various business property activities, and Solano County is the lowest or at the low end in all categories.

<u>County</u>	<u>Number of Boats</u>	<u>General Aircraft</u>	<u>Direct Billing</u>	<u>Property Statements</u>	<u>Field Appr.</u>	<u>Mandatory Audits (4-yr.)</u>
El Dorado	4,008	358	18	2,956	1,299	124
Placer	5,761	435	1,115	3,375	978	252
Monterey	6,126	374	-----	9,483	3,161	422
Solano	4,617	201	0	6,318	500	324
Tulare	8,022	482	in boats	18,622	in p.s.	600
Santa Barbara	6,133	520	0	11,749	3,600	757
Stanislaus	5,338	288	1,058	8,806	2,941	603
San Luis Obispo	8,030	417	3,648	8,265	1,624	345

The comparisons indicate that the Solano County Assessor/Recorder's Office may need additional real property appraisers. This is supported by the lowest number of real property appraisers among Solano County and its closest comparables in roll size. This translates to the highest number of secured roll units per appraiser and the highest units worked per real property appraiser.

## D. RECOMMENDATIONS AND SUGGESTIONS

Here is a summary of the formal recommendations and suggestions contained in this report, arrayed in the order that they appear in the text. The page is noted where each recommendation and its supporting text may be found.

### **RECOMMENDATIONS**

- RECOMMENDATION 1: Assign a high-level appraiser the duties of standards and quality control. (Page 14)
- RECOMMENDATION 2: Implement a positive response system to insure coordination between the business property and real property divisions. (Page 16 )
- RECOMMENDATION 3: Include the caption required by Section 533 of the Revenue and Taxation Code on all applicable escape assessments. (Page 17)
- RECOMMENDATION 4: Increase the utilization of and follow up on the Change in Ownership Statement; apply required penalties for failure to file statements timely. (Page 22)
- RECOMMENDATION 5: Revise procedures for assessing tenant improvements. (Page 28)
- RECOMMENDATION 6: Revise the program for the assessment of manufactured homes by: (1) classifying and entering manufactured homes on the secured assessment roll as personal property; (2) reviewing manufactured homes for declines in value; and (3) adjusting sale prices for park and location influences. (Page 35)
- RECOMMENDATION 7: Revise assessment procedures for lands subject to the California Land Conservation Act by: (1) properly treating nonliving improvements that are not restricted by CLCA contract; and (2) correcting an error in the computer program used to value living improvements. (Page 38)
- RECOMMENDATION 8: Develop and maintain an audit log to enable monitoring and evaluation of the audit program. (Page 45)
- RECOMMENDATION 9: Ensure that all mandatory audits are computer identified. (Page 47)
- RECOMMENDATION 10: Include qualifying welfare-exempt organizations in the mandatory audit program. (Page 48)

- RECOMMENDATION 11: Follow statutory requirements when enrolling audit results and offset overassessments with underassessments. (Page 49)
- RECOMMENDATION 12: Screen property statements more closely for proper signatures on property statements filed on behalf of corporations. Reject those that do not meet regulatory requirements. (Page 50)
- RECOMMENDATION 13: Classify building fixtures and fixed machinery and equipment as improvements and classify structure items as real property on the tax roll. (Page 52)
- RECOMMENDATION 14: Document changes in ownership in the audit narrative and workpapers and provide such information to the real property division of the assessor's office. (Page 54)

### **SUGGESTIONS**

- SUGGESTION 1: Create or update procedures manuals for the various units within the assessor's office to reflect current office procedures. (Page 15)
- SUGGESTION 2: Properly document appraisal records. (Page 15)
- SUGGESTION 3: Continue to request funds for a conversion of the real property drawer filing system to an open shelf filing system. (Page 18)
- SUGGESTION 4: Revise procedures for processing changes in control by documenting appraisal records when investigation shows no change in control occurred. (Page 24)
- SUGGESTION 5: Initiate a program for discovery of unreported new construction. (Page 28)
- SUGGESTION 6: Fully investigate all taxable government owned properties that have improvements to determine whether a possessory interest exists. (Page 40)
- SUGGESTION 7: Require the private water company to annually file a standard business property statement. (Page 41)
- SUGGESTION 8: Monitor the nonmandatory audit program by developing and maintaining an audit log. (Page 48)
- SUGGESTION 9: Expand the use of the business property statement as a tool for discovery. (Page 51)

## II. ADMINISTRATION

### A. INTRODUCTION

The following sections under Administration will present recommendations and/or discussions on topics that affect both the real and business property divisions, or their coordination.

### B. POLICY AND PROCEDURES

#### 1. Standards and Quality Control

A standards and quality control unit ensures the consistency and quality of the appraisal product or taxpayer services through the development and maintenance of appraisal and operating standards. Quality of appraisal output and adherence to standards is accomplished through internal audits. Other duties of a standards and quality control unit may include training, legal interpretations, or data processing coordination.

RECOMMENDATION 1: Assign a high-level appraiser the duties of standards and quality control.

The 1984 and 1992 survey teams recommended that the Solano County Assessor-Recorder establish a standards and quality control position. We are repeating this recommendation because of its importance to improving the assessor's operation. This position would have refilled a previous position that was discontinued because of budget constraints. The assessor's response reflected concurrence with this recommendation; however, budget constraints or threatened staff reductions continue to prevent its implementation.

Our review of the assessor's valuation program, as chronicled in the following pages of this report, noted areas where improvement is needed. Properly staffing an effective standards and quality control position would be a major step forward in making the needed improvements. To ensure objective, unbiased judgments without undue pressure from supervisors and managers, this position must report directly to the assessor.

As was done in the 1992 survey report, we include in Appendix A the major functions of a standards and quality control position. We again recommend the assessor designate one of the present high-level appraiser positions in the office as full-time standards and quality control and assign this position the duties as outlined in the above referenced appendix. The only action needed to accomplish this recommendation would be the hiring of an appraiser to fill the vacancy created by the transfer of the existing appraiser to the standards and quality control position.

#### 2. Procedures Manuals

Various specialty divisions in the Solano County Assessor-Recorder's Office have some form of procedures manuals in existence. The agricultural appraisal staff have recently completed a new operations manual pertaining to California Land Conservation Act (CLCA) property. And the clerical unit, located downstairs, has a clearly documented procedures manual. However, in our review we found that other units in both the real and business property divisions do not have formal procedures manuals.

SUGGESTION 1: Create or update procedures manuals for the various units within the assessor's office to reflect current office procedures.

Procedures manuals provide ASD policy guidelines, specific standards, and uniform procedures to assist the assessor's staff in the preparation of audit and appraisal reports, as well as other technical work products. Current manuals can help ensure that the work is consistent with approved policies and practices. Furthermore, separate operations manuals for each division provide special policies and procedures that relate to the specific program responsibilities of that particular division.

We suggest that the real and business property divisions create procedures manuals to reflect current laws, rules, practices, and procedures that impact the work of each division. We also recommend that the specialty units within these two large divisions update existing policies and procedures manuals.

Current operations manuals would provide the assessor's staff with written directives of the processes, procedures, and techniques that are necessary to perform their duties in an adequate manner. The manuals can also be used as training tools for new employees.

### 3. Documentation

SUGGESTION 2: Properly document appraisal records.

As computerized data systems take on a greater role in the assessor's office, the documentation on the paper appraisal records is often de-emphasized. We surmise that this may be the case with the Solano County Assessor-Recorder's Office. In our review of appraisal records, we found many instances where we were unable to determine how appraised values were derived.

For example, when allocating a percentage of a sale price to an individual parcel from a multi-parcel sale, it was often difficult to tell what parcels were involved and what method was used for the allocation. For new construction, some records were unclear as to quality, square footage, and sources of unit costs.

In our review of corporate changes in control of real property, we found that notes are not recorded on the county record if it is determined that there was no change in ownership. For corporate changes in control subject to long term leases, many records did not acknowledge any type of activity, whether it be a change in control or a non-reappraisable transfer.

In decline in value situations, there is very little supporting documentation on county records supporting value reductions. In several cases we were not able to find supporting notes regarding comparable sales or income data, although it was usually clear that the reductions were justified. For most areas of homogeneous tract housing, copies of the decline in value study could be found in the file. However, in many other cases it would be advisable to include more commentary justifying reductions.

We suggest that the appraisal staff document on the appraisal record the basis for every value change. When allocating a sale price to multiple parcels, the appraiser should make sure that the records for all parcels involved in the transfer contain explanations as to the allocation method, or reflect a reference to a master file describing sale price allocations for all affected parcels. New construction should be fully documented on the appraisal record, including the sources of unit costs, square footage, building permit number, and quality of the new construction (materials and workmanship). For corporate changes in control, we suggest the county add explanatory notes as to why a change in control did not take place and attach lease copies to the county record. For those parcels experiencing a decline in value, documentation supporting reductions in value should be added to all records.

Implementing this suggestion will produce complete appraisal records which will be useful in responding to any taxpayer inquiries and in performing quality control reviews.

#### 4. Coordination

The Solano County Assessor/Recorder's Office is operating without formal procedures for coordination between the real property and business property divisions. Coordination between the two divisions is necessary to insure that assessments are properly allocated between the two divisions for correct processing.

RECOMMENDATION 2: Implement a positive response system to insure coordination between the business property and real property divisions.

We had previously made this recommendation in our 1992 survey report. There is still no positive response system and problems are still evident.

During our audit of the county assessor's office, we noted communication in the form of memos, copies of building permits, and the AH-571L, Schedule B, being routed from one division to the other. However, the communication is one-way since the sending side does not track or follow-up on the referral, and the receiving side does not transmit confirmation of the information or the action taken. This one-way communication system has resulted in erroneous assessments.

We recommend the assessor implement a two-way or positive response system. Positive response coordination between the real property and business property divisions requires written procedures to insure that the real property division has an opportunity to analyze and

respond to information transmitted by the business property division, and vice versa. A positive response system will result in better resource utilization and more accurate assessments.

#### 5. Escape Caption on Roll

Escape assessments are assessments made after the assessor has certified the completed local roll prepared pursuant to Section 601 of the Revenue and Taxation Code. Upon discovery of property that has escaped assessment, the assessor must immediately add the escape assessment, and any applicable penalty or interest, to the local roll. The assessor does not need the concurrence of any county official or board to enroll an escape assessment.

Section 533 of the Revenue and Taxation Code explains how the escape assessment is to be entered on the local roll. If the escape assessment is entered on a roll that is not the roll for the assessment years in which it escaped assessment, then the entry must be followed with the caption:

“Escaped assessment for 19\_\_ pursuant to Sections \_\_\_\_ of the Revenue and Taxation Code.”

This requirement applies for both the secured and the unsecured roll, real property and personal property.

RECOMMENDATION 3: Include the caption required by Section 533 of the Revenue and Taxation Code on all applicable escape assessments.

This recommendation is a reiteration of one made in the 1992 survey report. The current review of records show that the required caption of Section 533 is still not recorded on the Solano County assessment rolls. The county’s data processing department confirmed that with the enhancements that have been made to the business property division’s software, it is possible to include this caption on the unsecured assessment roll.

We recommend that through coordination with the county auditor’s office and the county’s data processing department, the assessor correct this omission on the unsecured roll as soon as possible.

The county’s data processing department informs us that enhancements would have to be made to the computer programming for the secured roll before the aforementioned caption could be added it. We recommend that the necessary enhancements and correction be made as soon as possible.

#### 6. Record Filing

In the 1992 survey report, we recommended that the present drawer filing system be converted to an open shelf filing system. Since that time, money from a one time property tax refund from the State was used to convert the business property files to an open shelf filing



system. There were not sufficient monies, however, to convert the real property files at the same time.

SUGGESTION 3: Continue to request funds for a conversion of the real property drawer filing system to an open shelf filing system.

As was detailed in the 1992 report, the real property files are housed in a variety of four drawer filing cabinets. The individual appraisal records are arranged in numerical order by page, block, and lot numbers. All appraisal records for a designated map book page are filed in tabbed manila folders which are, in turn, arranged in numerical order within map book drawer files. Though the Solano County Assessor-Recorder's Office has made the best use of limited resources, the filing system is antiquated and inefficient.

A modern filing system assists staff in operating at maximum efficiency. The new open shelf system in the business property section is color coded, making filing and file retrieval easier and misfiling less likely. When a misfiling does occur, it is readily identified. All indications are that the open shelf system has been a beneficial change.

We suggest that the assessor keep the conversion of the real property filing system a top priority when funds become available.

## 7. Training

The Revenue and Taxation Code (Sections 670 and 671) contains specific educational and training requirements that must be met and maintained for a person to perform the duties of a county property appraiser for property tax purposes. The Board of Equalization is charged with ensuring that these requirements are met.

Section 671 of the Revenue and Taxation Code requires an appraiser to receive 24 hours of approved training each year in order to retain a valid appraiser's certificate. Advanced appraisers need only 12 hours of training each year.

To qualify for an advanced appraiser's certificate, one must have a minimum of six State Board of Equalization (SBE) courses with at least two classified as advanced. Outside courses that could be substituted for an SBE advanced course include an Appraisal Institute course lasting longer than three days, or a college appraisal course.

Solano County appraisers were all reasonably current in their continuing education requirements. The assessor allots \$2,000 per year for training. Appraisers are encouraged to take college courses, and attendance at the Society of Auditor Appraisers (SAA) conferences is emphasized for auditor-appraisers. If an appraiser takes an Appraisal Institute course at their own expense, they can apply for a 50 percent reimbursement.

Almost all the Solano County appraisers qualified to hold an advanced appraiser's certificate have one, or have applied for one. Our research found only one appraiser who

qualified for, but lacked, an advanced appraisal certificate. We commend the assessor for recognizing the importance of continuing education and ensuring that his appraisal staff meets certification requirements.

### III. REAL PROPERTY ASSESSMENT

#### A. INTRODUCTION

Under our present property tax system, county assessor's programs for assessing real property include the following elements:

- (1) Revaluation of properties that have changed ownership;
- (2) Valuation of new construction;
- (3) Annual revaluation of certain properties subject to special assessment procedures, such as land subject to California Land Conservation Act (CLCA) contracts and taxable government-owned land; and
- (4) Annual review of properties having declining values ("Proposition 8" appraisals authorized by Section 2(b) of Article XIII A).

The statistics derived from the Assessment Standards Division's (ASD) assessment survey of the 1992-93 Solano County local assessment roll indicates the overall quality of the roll for that year. ASD's sampling of 319 roll entries included 285 assessments of real property other than business trade fixtures. Of these, 62 were appraised by ASD staff at values different from the values determined by the assessor's appraisal staff (42 were underassessed and 20 were overassessed). These sample item differences, expanded by statistical measurement to represent all real property assessed on the 1992-93 local roll, indicate about 5,840 properties were underassessed by approximately \$141,484,423, while about 5,839 properties were overassessed by approximately \$233,661,443.

The significance of these statistics is limited by the purposes for which they were created. In order to determine the total roll value, random samples were selected from three value strata. Expansion factors are then derived by dividing the number of roll units in a value group by the number of samples selected from that group. This is a statistical technique which is designed to accurately estimate the total roll value from a few sample appraisals. However, since the expansion process targets the total roll, rather than its components, we have less confidence in these expansion factors when they are applied to small groups within the total roll. Consequently, we use the expanded figures, referred to above, primarily to indicate areas worthy of study.

For this reason, readers are advised that the projected underassessments and overassessments presented elsewhere in this report may not agree with the figures just presented. This could happen because one individual sample item may contain offsetting errors. The net "bottom line" differences can conceal the fact that there may have been two significant value differences in the appraisal, one positive and the other negative. We analyze line item differences rather than "bottom line" differences in order to isolate accurately the problems involved.

1. Change in Ownership

Solano County has had a combined assessor's and recorder's office since 1991. This seems to have made timely discovery of most ownership changes more likely due to an enhanced level of cooperation and communication. The recorder's office routinely charges the \$20 fee for the lack of a concurrent filing of a Preliminary Change of Ownership Report (PCOR), as provided for in Section 480.3 of the Revenue and Taxation Code. This may account for the fact that out of 11,383 deeds recorded between January and December 1995, 10,816, or 95 percent, were accompanied by a PCOR. Timely communication on possible changes in ownership is evidenced by the daily delivery of PCOR's and microfilm to the assessor's office, as well as a weekly microfiche reflecting grantor/grantee transactions. In addition, the title companies provide affidavits as to the selling price on each transfer deed.

From these various sources the Solano County Integrated Property System (SCIPS) produces a daily listing of documents. The SCIPS printout lists only the workable documents, those thought to be transfers. For 1994, workable documents processed by the clerical staff totaled 18,771, averaging 1564.25 documents per month, and an average 74.68 documents worked per day. Staff shortages have contributed to a current backlog of 32 days for daily workable documents. The backlog goal is seven days.

We commend the assessor for what appears to be a superior level of coordination and communication between the assessor's office, the recorder's office, and the title companies.

a. Document Processing

Document processing is the responsibility of the clerical staff, who print each document and make determinations as to the percentage change of ownership interest transferred and whether the transfer is reappraisable. They must also analyze the legal descriptions in order to ascertain the assessor's parcel number.

After a document is fully researched, it is ready to be keyed into the data base. The clerical staff enter the following information:

- (1) Document number
- (2) Grantor/grantee
- (3) Grantee address
- (4) Type of document
- (5) Whether it is reappraisable
- (6) Whether a PCOR was filed

b. Direct Enrollment

From the data now keyed into the real property data base, SCIPS prints an Ownership Transfer Report (OTR) for each transfer document which is routed daily to the real property section, along with the PCOR's. Here the OTR's are matched with PCOR's and divided into appraisable and nonreappraisable transfers. Those deemed nonreappraisable are reviewed by the chief appraiser. All reappraisable transfers are turned over to the duty appraiser, who forwards those transfers involving commercial/industrial or special use properties to a senior appraiser, while those requiring field inspection or follow up are put in a "work drawer" for special handling. The remaining transfers are eligible for direct enrollment.

The duty appraiser will first check the computerized data bank by entering the subject's parcel number to see if a base lot value has been calculated by the county. Base lot values are established annually by the appraisal unit for tracts and subdivisions. A base lot value suggests that the subject property is in a homogeneous neighborhood and is a likely candidate for direct enrollment. In addition, the duty appraiser may scan current sales data to see if the PCOR amount fits the pattern of selling prices for the subject's geographic area.

If a transfer is to be directly enrolled, the duty appraiser enters the value from the OTR onto the Secured Roll Value Change form. The clerical staff will subtract the land value and allocate the balance to improvements. These values are then keyed into the data base. The Secured Roll Value Change forms are then routed to the chief appraiser for review and initialing. The appraiser assigned appraisal work in subject's geographic area will also review the indicated value. If there is a problem, no direct enrollment occurs. Instead, all documentation will be put in the "work drawer" for follow up.

c. Change in Ownership Statement

In our 1992 survey report, we recommended that the assessor implement the use of Change in Ownership Statements (COS's) for all transferred properties and apply the proper penalties for lack of response. Previously, we found that Change in Ownership Statements were sent only selectively, resulting in the loss of valuable sales data. Though some procedural changes have been made, improvement is still needed.

RECOMMENDATION 4: Increase the utilization of and follow up on the Change in Ownership Statement; apply required penalties for failure to fill statements timely.

In the past, Change in Ownership Statements were not sent on all property types (residences were typically excluded). This is no longer the case, as evidenced by the Change in Ownership log. When a COS is sent, the transferred parcel's number is entered in the Change in Ownership log, along with the date sent and the date returned. Our review of the log entries showed that a large percentage of the affected properties were single family residences.

However, it is evident that COS's are still being sent only selectively. The Change in Ownership log showed that between April 1992 and February 1996 only 121 COS's were mailed out. This number seems quite low, considering that in 1995 alone the 5 percent of

recorded deeds not accompanied by a PCOR (Preliminary Change of Ownership Report) numbered 567 documents. There seems to be some confusion among staff members as to current policy on utilization of the Change of Ownership Statement. The clerical staff, who are responsible for sending out the COS's, stated that they send one only at the direction of an appraiser. One exception is manufactured homes; department policy calls for a COS to be sent for all manufactured homes.

There are also differing opinions on follow-up procedures. The clerical staff will log in the date of a returned COS, but, indicated that they do not follow up on those not returned. Out of the 121 COS's mailed and mentioned above, only 81, or 67 percent, were returned. It is the assessor's policy not to enroll penalties for failure to return a COS, because it is felt that the time and expense is counter productive.

Section 482 of the Revenue and Taxation Code states that in the case of failure to return a Change in Ownership Statement within 45 days from the date of a written request by the assessor, a penalty of either one hundred dollars (\$100), or 10 percent of the taxes applicable to the new base year value reflecting the change of ownership of the real property or manufactured home, whichever is greater, but not to exceed two thousand five hundred (\$2,500), shall be added to the assessment made on the roll. Sections 482(d)(1)(2) and (3) prescribe the manner in which the penalty is applied.

We recommend that the assessor implement the use of Change of Ownership Statements for all transfers lacking a PCOR and apply proper penalties for nonresponses. Information gained from Change of Ownership Statements adds to the sales data bank, reduces appraisal workload, and improves appraisal accuracy.

d. Legal Entity Ownership Program (LEOP)

The Assessment Standard Division's (ASD) Legal Entity Ownership Program (LEOP) unit transmits to each county a listing of legal entities that have reported a change in control. Each of the reported change in control transactions is investigated by ASD. The report includes the name of the acquiring entities, the date stocks or partnership interests were transferred, the parcels involved, and whether the property was owned or leased on the transfer date.

Many of the acquiring entities are unable to provide detailed information pertaining to the name of the county where the property is located, the assessor's parcel number, or how many parcels are owned by the entity. Because of the questionable accuracy of the data provided, ASD has advised county appraisal staff to thoroughly research the named entity's holdings to determine that all affected parcels are identified and properly appraised.

LEOP's main source for discovering changes in control is the state income or franchise tax forms completed by companies doing business in California. If a change in control has occurred, the affected business is requested to mark the appropriate box on its tax return, and the Franchise Tax Board subsequently informs the LEOP unit. The LEOP unit corresponds with

the business until the change in control status is confirmed. By the time a county receives notification of a confirmed change in control, two or more years may have elapsed since the event.

We randomly checked the appraisal records of properties listed in the ASD LEOP reports transmitted to the Solano County Assessor-Recorder's office. We also cross checked the business property statements (Form 571-L) to determine whether the legal entity had also notified the assessor for the change in control. Our review prompted the following suggestion.

SUGGESTION 4: Revise procedures for processing changes in control by documenting appraisal records when investigation shows no change in control occurred.

In many cases the assessor's appraisal records were not fully documented and we couldn't confirm a change in control. Apparently no notes are entered on an appraisal record if it is determined that the real property did not change ownership. The assessor's staff indicated that several properties were leased for a term less than 35 years and that the transfer of such a leasehold interest did not constitute a change in control. We suggest the county increase documentation of records when a LEOP letter is sent concerning a particular property. For example, a copy of the lease should be attached to the record and a note made as to why a change in control did not take place.

e. Improvement Bonds

Article XIII A precludes governmental bodies from invoking general obligation bonds as a means of raising revenue for public improvements. As a result, many counties have turned to special assessments as a means of raising the needed capital for street improvements, domestic water systems, sewer treatment facilities, etc.

Improvement bonds are a form of public financing usually associated with land improvements that generally enhance land value. To obtain this type of financing, land benefiting from the financed improvements is pledged as security for repayment of the loan. As a lien against the land, the improvement bond is an obligation that must be assumed by the land owner of record or his successors in interest. For this reason, when using the comparative sales approach in determining site value, the appraiser must include the unpaid cash equivalent principal of any bonds outstanding as an adjustment to the nominal selling price (See Assessors' Handbook Section 501, General Appraisal Manual, 1982 edition, page 70). This principle applies equally when the appraiser accepts the adjusted purchase price of a sold parcel as market value; the new value to be enrolled must include the value of any outstanding bonds assumed by the buyer.

The Solano County Auditor's Office provided us with a listing of parcels encumbered by improvement bonds, arranged by improvement district. A private company annually supplies the auditor's office with bond amounts, and these are printed on the Ownership Transfer Report (OTR) by the county's data processing unit. The OTR is a computerized sheet

listing details of a transfer for the appraisers. At times the bond amounts indicated on the OTR have proven to be wrong, so appraisers must regularly verify the amount.

A random sampling of parcels encumbered by bonds was selected and cross checked with the county's public transfer list. The real property files were reviewed for those that had recently transferred. All files reviewed indicated sales prices to have been properly adjusted for outstanding bond amounts.

Identifying parcels subject to outstanding bonds and properly adjusting sale prices upon transfer has been a problem for many assessors' offices. We commend the assessor for what appears to be a very effective improvement bond program.

## 2. New Construction

### a. Construction Costs

When applying the cost approach to value new construction, the Solano County Assessor/Recorder's Office relies on the method of determining cost that the appraiser feels most accurately represents the value contributed to the property by the new construction. These methods include: using historical owner reported costs; using cost manuals such as the State Board of Equalization's AH 531, or the Marshall and Swift cost manual; using market derived building residuals to isolate building costs; and seeking out actual costs by reviewing building permits and business property statements; and interviewing assessees. Each of these methods has its own merits for different situations.

The assessor's staff appears to find the market derived costs most useful for new housing tracts where the subdivision land values and selling prices can be fairly well established. For residential additions, owner reported costs and construction cost manuals are often used as the best indicators of value. We found that the appraisers discovered and valued commercial and industrial properties as well as tenant improvements by examining construction records, owner reported construction statements, and business records to determine actual costs.

It appears that the assessor's staff checks replacement cost factors derived from published cost manuals against cost data derived from the local building market. When the assessor's staff found that costs from manuals were not supported in the market, adjustments were made to the factors or alternative methods were used to value the new construction. For example, an assessor's office study showed that construction costs in the Assessors' Handbook for air conditioning overstated the value of air conditioning, both in the cost to install the air conditioning systems and as represented by the market for properties with air conditioning.

The assessor's office has also stated that entrepreneurial profit is considered but is only assessed where it can be shown in the marketplace. The assessor's staff stated that they include interest on construction where they can show it is appropriate, but more often use a market approach to develop an indicator of new construction value that includes all the components of construction.



The assessor collects historical cost data by sending and receiving new construction questionnaires, examining business property statements, holding discussions with taxpayers, and reviewing building permit information. Generally, permits are received and screened by supervisors to determine which permits justify the sending of new construction questionnaires. If a new construction questionnaire is not received by the assessor's office, a second new construction questionnaire is sent. If historical cost data is received, the appraiser can determine the validity of the reported costs compared to the typical market value added by those expenditures. In the absence of obtaining historical cost data from the taxpayer, the appraiser must rely on construction cost manuals or market studies to determine the value added by the new construction.

b. Building Permits

The Solano County Assessor-Recorder's Office receives building permits from eight issuing agencies: Solano County, and the cities of Rio Vista, Vacaville, Fairfield, Suisun, Vallejo, Benicia, and Dixon. Each month the county and the Cities of Vallejo and Dixon provide computer-generated lists of permit data. The remaining cities provide legible multi-form copies. The assessor's staff does not maintain records pertaining to the number of permits issued annually by the eight issuing agencies.

All building permits are routed to the two supervising appraisers in the real property division. The supervising appraisers screen the permits, eliminating nonappraisable items such as water heater and furnace replacements, reroofing, and electrical upgrading. There is no written guideline prescribing parameters for culling building permits. Building permits are not discarded based solely on the stated value of the work to be performed. Building permits are only discarded when it is determined that the type of construction being completed is nonappraisable.

The permits are screened for content (i.e., type of work to be done) and tenant improvements. Tenant improvements are classified by the supervising appraiser as real property improvements (fixtures) or business property improvements. If it is determined that the improvements should be assessed by the business property division, then the permit is forwarded to the business property division.

Following the screening process, the supervisor writes a work description code on the permit. The assessor's staff has developed a four-digit number code for each type of permit work, such as 1033 for alterations and remodeling and 1025 for garage conversion. These are converted by the computer program to a written description. (When additional information is desired, a "Y" designation is marked on the permit, indicating that the supervisor wants a questionnaire to be sent to the property owner). The permits are then routed to the appraisal clerks.

The appraisal clerk enters the following data into the computer system:

- ( 1) Assessor's parcel number (APN)
- ( 2) Permit number (this number is located on the permit)
- ( 3) Work description code
- ( 4) Issue date
- ( 5) Value of work shown on permit
- ( 6) Name of issuing agency
- ( 7) Name of person requesting permit
- ( 8) Job address
- ( 9) Remark - used for additional data such as three-car garage
- (10) Mail out (Yes) or (No). By entering Y's, the computer program generates mailing labels for mailing "Property Owner's Statement on New Construction" letters.

After data entry, the permits are routed to the appraisal staff. The permit copies are used only to alert the appraiser to pending work.

Returned questionnaires are received in the clerical unit. A data entry is made to indicate that the questionnaire has been received and to prevent a second mailing. The applicable appraisal record is pulled, attached to the questionnaire, and placed in the rework file. If the first questionnaire is not returned within 45 calendar days, a "Second Notice" questionnaire is sent. If the second questionnaire is not returned, no further questionnaires are sent, and the appraiser notes that a field review is necessary.

The building permit computer program generates a listing of all active permit work. Upon request, an appraiser can obtain a listing of all active permit work for a given area of the county. The permit entry remains on the list until a data entry clerk enters a cancellation code. Cancellation codes are not entered for partially completed permit work.

c. Escaped New Construction

There were eight residential properties in our sampling survey having new construction that escaped assessment. Most of these escapes consisted of wood decks (three with arbors) and concrete slabs. The five permit-issuing agencies we contacted (Solano County, Cities of Dixon, Vallejo, Fairfield, and Vacaville) informed us that building permits are not required for wood decks that are 30 inches or less above surface level, (18 inches or less in Vacaville) and concrete slabs, regardless of size.

SUGGESTION 5: Initiate a program for discovery of unreported new construction.

In our 1992 survey we suggested (informally) that the appraisal staff could periodically canvass all properties in the county comparing appraisal records with actual physical development. The assessor has yet to implement a formal discovery plan. Unreported new construction is usually discovered incidentally by field appraisers or when the property transfers. Since the majority of new construction usually occurs within a relatively short time following a sale, the assessor could target recently transferred single-family dwellings. A programmed field review of this targeted group of properties could discover substantial amounts of new construction escaping assessment. Similar programs have proven to be cost effective in several counties, so we continue to encourage Solano County to introduce a discovery program.

d. Tenant Improvements

Commercial structures are usually assessed as shell buildings. Tenant improvements are interior amenities (such as interior finish work, partitions, wall and floor coverings, lighting, counters, and shelves) that are installed by tenants when they occupy the shell buildings.

Our review of the Solano County Assessor-Recorder's Office shows that changes are needed in the processing of tenant reported leasehold improvements.

RECOMMENDATION 5: Revise procedures for assessing tenant improvements.

In our 1992 survey report, we recommended that all tenant improvements be assigned to the real property division. During our review we noted that tenant improvements continue to be appraised by either the real property or business property division, depending upon the type of account involved. We are recommending a coordinated effort.

On secured accounts, the real property division has the responsibility of appraising tenant improvements. The business property division sends a copy of the AH 571-L, Schedule B, to the real property division. The real property division analyzes, investigates, and follows appropriate assessment procedures.

However, for unsecured accounts, the business property division enrolls all entries on the AH-571-L, Schedule B, structure item column, as assessable structures valued under Article XIII A. The business property division does not send a copy to the real property division; therefore, the entries on the AH 571-L, Schedule B, structure item column, are not analyzed or classified as to assessable structures, or fixtures, or nonassessable expenses such as maintenance, repairs, or remodel. The real property division does not receive this information and the entries are not reviewed annually for a possible reduction of value under Section 51 of the Revenue and Taxation Code.

A section of the business property statement (Schedule B), deals specifically with real property owned or improved by the owner or tenants of premises housing business enterprises. Taxpayers are required to annually list additions, alterations, or deletions of real property improvements by reporting costs detailing changes to land, land improvements, and structures. In this way, taxpayers report costs of additions or alterations to tenant improvements. These changes must, by law, be reviewed and reflected in the property assessment if they qualify as new construction.

This information flows into the business property division via the property statements and should be transmitted to and analyzed by the real property division, in order to be used effectively. For the following reasons, all reported costs should be investigated:

- (1) The cost may represent normal maintenance or repairs that do not qualify as new construction and are therefore not assessable; and
- (2) Proper classification of property is essential for assessment purposes. The real property division is responsible for determining and processing supplemental assessments. The business property division does not issue supplemental assessments, so supplemental assessments on structural items could go unassessed.

We strongly recommend that a copy of the AH 571-L, Schedule B, be sent to the real property division for unsecured as well as the secured accounts and that the assessment of tenant improvements be assigned to or coordinated with the real property division. The real property division could do a cross check with the building permits to check which tenant improvements have already been enrolled and which may have escaped assessment. The real property division is also in a better position to field inspect and investigate the reported costs to determine if it is an assessable item or a nonassessable item such as maintenance, repair, or remodel.

Aside from the rather common problems with non-permitted construction and coordination on the assessment of tenant improvements, it appears as though the assessor has a good program for assessing new construction. The market value of new construction is emphasized with historical costs and replacement costs from cost manuals regularly compared to market studies.

## B. SPECIAL POLICIES AND PROCEDURES

### 1. Decline in Value

Like most counties in the State of California, Solano County has experienced a dramatic increase in the number of decline in value assessments being processed. Approximately 25 percent of the 90,000 single family residences are experiencing declines in current market value below their trended base year values. We commend the assessor for actively seeking to

identify properties that have declined in market value, rather than waiting for those properties to be brought to their attention by property owners.

Their basic program involves identifying single family residences that have sold since January 1989 and are suspected of having declined in value. These properties are further identified by subdivision for convenience in selecting appropriate comparable sales. The appraiser determines the market value on the lien date for a model in a subdivision and then applies the value to similar models in that subdivision.

To supplement the identification process, requests for decline in value assessment reductions are being solicited from taxpayers. Requests for reductions are usually made by letter. Local newspaper, television, and radio ads are run that request taxpayers to file if they feel that their assessments exceed the current market value of their properties.

Properties that have been temporarily reduced due to a decline in market value are highlighted and summarized on the computer data system for periodic review. They are reviewed each year to determine if their value has increased. The physical property record lists the value for the last reappraisable event. This value is factored to the current year so that the staff can determine whether the current market value has increased to an amount equal to or greater than factored base value. The Solano County Assessor-Recorder's Office is studying a means of tracking the factored base years values to compare with the reduced values of properties that have declined.

Commercial properties are being reviewed by the assessor for reductions as they are brought to his attention by the taxpayer. Due to the different market for commercial properties, they are not being identified by transfer date as are the single family residences. Generally, the assessor encourages commercial owners to bring their decline in value situations to the attention of his staff. Overall, the assessor has a very effective program for handling value declines.

## 2. Supplemental Assessments

Supplemental assessments are created automatically by the Solano County Assessor-Recorder's computer system. Our review of several parcels requiring supplemental assessments confirmed the computer system does an accurate job of processing the appropriate supplemental assessments. The assessor's computer system is linked to other county and city agencies, who are able to load the system with information that the assessor needs to make the assessment.

In the case of a change in ownership, the appraiser will go to the value change screen in the computer and enter the document number. The county recorder's staff will have already entered the deed document number into the assessor's system and the system will be waiting for entry by the clerical staff or appraiser.

In the case of new construction, the appraiser will enter the permit number. The permit will have already been registered on the assessor's computer system by the city building department, and if the building department has a final completion date for this permit, that information will also appear on the computer screen. If the appraiser has discovered new construction that was not authorized by a building permit, then the appraiser has the ability to create a "dummy" permit number that will work in the system just like an actual permit number.

The computer system will automatically pull up the current roll values and any other supplemental events and generate the supplemental values. Once the event has been entered into the system, the Notice of Supplemental assessment will be sent and a tax bill will be produced but held in suspense. After approximately one month, the supplemental tax bill will be sent. In the case of negative supplemental assessments, the same process will result in a refund being issued. The assessor's office creates supplemental assessments for all qualifying events regardless of value. The tax collector has the authority to cancel any supplemental bills that are below a given dollar amount.

### 3. Assessment Appeals

Assessment appeals are heard once a month in the chambers of the Solano County Board of Supervisors. Appeals board hearings are recorded and recordings are available to the public. Appeals are heard by a three member board with two alternates, all appointed by the Board of Supervisors. Clerical requirements are handled by the Clerk of the Assessment Appeals Board.

Pursuant to Revenue and Taxation Code 1624.01, the appeals board members have received training in the form of a one day workshop put on by the State Board of Equalization's Assessment Standards Division. Procedures for the assessor's staff regarding assessment appeals and stipulations are outlined in the Assessor's Procedures Manual.

Currently, the Assessment Appeals Board and the assessor's office use separate data bases for tracking appeals cases. The assessor has recently gone to a new data base and tracking system and expects to bring the Assessment Appeals Board on line in the next year. Scheduling is coordinated by the assessor's office and the Clerk of the Assessment Appeals Board. Applications are received by the appeals board and sent to the assessor's office for scheduling. The number of appeals cases filed increased for 1995-96 to 1,074 from 890 cases filed in 1994-95 and 861 cases filed in 1993-94.

After the assessor's staff has reviewed the appeals applications, the list of applicants to be notified of hearing dates is forwarded to the Clerk of the Assessment Appeals Board. Approximately 10 days prior to the hearing, the assessor's office provides packets with their back up material to the board members. Usually hearings are allowed to be rescheduled only once. Taxpayers must notify the Assessment Appeals Board 10 days before the hearing to reschedule. To assist taxpayers, postcards are being sent along with appeals packages so taxpayers can respond and let the appeals board know whether they intend to appear for the hearing.

The appeals board clerk is not aware of any cases that have defaulted due to the two year limit. A few applicants have signed waivers for the two year limit.

A formal procedures manual for the board members does not exist, but board members are given copies of appeal board rules. It would be advisable for the Assessment Appeals Board members to adopt a written procedures manual. It would also be useful for the board members and appeals board clerk to obtain additional appeals training beyond the initial workshop.

#### 4. Assessor's Roll Corrections

Pursuant to Section 4831 of the Revenue and Taxation Code, roll corrections can be made when an error or escaped assessment is discovered after the roll is closed. The correction may be made anytime after the roll is delivered to the auditor but shall be made within four years, with a few exceptions, of the making of the assessment which is being corrected.

The Solano County Auditor processed 3,456 secured assessor's roll corrections for the 1994-95 tax year. As of March 4, 1996, 2,098 roll corrections had been processed for the 1995-96 tax year. When a correction seems necessary it is analyzed and worked by the assessor. Assessor's roll corrections are then sent to the auditor where they are date stamped, logged by APN, and processed into the system. Corrections are suspended until the tax bill is extended. Once matched with the tax bill, the correction is made to the roll. Assessor's roll correction records are kept for two years at the auditor's office and then sent to archives.

The assessor's "secured roll change" form shows action code, document number, new values, and date of last roll change. CPI trending is not shown on this form. The "Notice of Proposed Assessment" letter is sent to the taxpayer and shows the changes that are being made to the last four years. The auditor's "Assessment Roll Changes" worksheet shows the original and corrected values of the roll years affected and has a spot for authorizing signatures. The same form can be used to request the auditor to issue unsecured supplemental bills.

Overall, the assessor's roll correction system appears effective for changing assessments and notifying taxpayers.

#### 5. Misfortune and Calamity

Solano County enacted Ordinance 1106, providing for the reassessment of property damaged by misfortune and calamity with a minimum amount of \$5,000 in damage. The language of Ordinance 1106 reads very similar to Revenue and Taxation Code 170, which is also referenced in the ordinance. The assessor's office has developed printed procedures and worksheets for the valuation of properties with misfortune and calamity status. The assessor's office uses the supplemental assessment format for both reducing and restoring factored base year values of property stricken by calamity or disaster.

Misfortune and calamity claims are discovered by the assessor's office when a taxpayer files a misfortune and calamity application, or when the assessor's staff is alerted through the permit screening process. Nearly all substantial fires will cause the city planning departments to issue permits for "demolish structure," "repair fire damage," "rebuild," or a similar action. Additionally, city permits usually show a value for the work being done. The assessor's staff screens these permits and if they suspect that owners may be eligible for calamity relief, an application for relief is sent to the property owner. Building permit data is summarized on the assessor's computer system and is accessible to the appraisal staff.

There has not been a major Governor declared disaster in Solano County in recent years. In the past, when Governor declared disasters have occurred in this county, the assessor's staff have gone to the scene and actively searched out misfortune and calamity applicants, sometimes setting up booths to serve the applicants. The assessor's office also subscribes to local newspapers and looks for reports of fires and disaster. The assessor's office does not receive fire reports issued by local fire departments, but the staff believes that their permit screening process discovers all substantial disasters.

The City of Fairfield Planning Department staff said that permits are not issued for "fire damage" unless the contractor or owner describes the work to be done as such on the building permit application. "Demolish" and "repair" permits do not distinguish between damage caused by fire or disaster. At the City of Fairfield Fire Department, computer reports array types of fires, numbers of fires, and other statistical summaries; however they currently do not have the capacity to produce reports that highlight the addresses of properties damaged by fire and disaster. The fire department personnel indicated they expect to be able to produce such reports in the near future. Considering the likelihood of overlooking damaged properties by relying exclusively on the permit screening process and owner reporting methods of discovering misfortune and calamity, we suggest that the assessor arrange to receive fire department reports, which include the addresses of fire damaged properties, as soon as the potential for producing those reports is available.

When a reduction has been made, the property is "flagged" by its value action code and put on a construction in progress list. There is no separate summary of properties with values reduced due to misfortune or calamity. Once on the construction in progress list, however, the property should be continually reviewed until the construction is completed. The assessor's staff believes that this system successfully monitors misfortune and calamity reduced property values so that factored base year values can be restored when the damaged properties have been repaired or replaced.

While inspecting the restored property in the field, the appraiser should be able to assess any additional improvements added beyond replacement of the structures or that existed before the disaster, by comparing the new structures with the property building records. The field review emphasizes the need for keeping accurate building records.

In order to assure that disaster damaged properties are not overlooked by the assessor's staff, we suggest that the assessor seek additional means of identifying properties that



may qualify for disaster relief. If the fire departments were to develop the capacity of providing situs addresses of disaster damaged properties, then this may be an additional method of identifying such properties. It is also important that accurate and up to date building records be kept so that the appraisal staff can determine the before and after status of disaster damaged properties. As long as the construction in progress summary works for checking the status of properties that have been granted disaster relief, then it appears unnecessary to produce separate reports for these properties.

Examinations of assessor's records with disaster relief action demonstrates that the misfortune and calamity claims received are being properly addressed.

#### 6. Low-Valued Property Exemption

Section 155.20 of the Revenue and Taxation Code permits a county board of supervisors to exempt from property tax all real and personal property with a full value so low that, if not exempt, the total taxes, special assessments, and applicable subventions on the property would amount to less than the cost of assessing and collecting them. In determining the level of exemption, the board of supervisors must determine at what level of exemption the costs of processing assessments and collecting taxes exceeds the proceeds and then establish the exemption level uniformly for all classes of property. The full value to be exempted may not exceed \$5,000.

The Solano County Board of Supervisors has recently revised their low-valued property exemption. The original, Resolution No. 85-5, was adopted in January of 1985 and exempted real and personal property with a full cash value of \$2,000 or less. On January 23, 1996, the Board revised this resolution to include real and personal property with a full cash value of \$5,000 or less.

For real property, the exemption is based on the real property's base year value. Once real property is deemed to be exempt, it remains exempt until the property transfers or new construction increases the value of the property above the adopted value. Exempted low-valued property in Solano County is enrolled at a zero value.

Typically these properties are not appraised in order to determine eligibility for the exemption; rather, value is determined through correspondence with the taxpayer (i.e., telephone or letter). We encourage the assessor to randomly check exempt properties to confirm the correspondence with taxpayers and to inspect properties for escaped new construction that might raise the value above the exemption limit.

## C. SPECIAL PROPERTY VALUATION AND PROCEDURES

### 1. Manufactured Homes

Manufactured homes have been taxable on local county tax rolls since July 1, 1980. Under current law, a manufactured home can become subject to local property taxation either because it was first sold new on or after July 1, 1980, or because the owner voluntarily requested conversion from vehicle license fee to local property taxation. The statutes prescribing how manufactured homes must be valued and assessed are Sections 5800 through 5842 of the Revenue and Taxation Code. There are also sections of the Health and Safety and Vehicle Codes that may apply to manufactured homes.

The appraisal of manufactured homes is assigned to the business property section of the Solano County Assessor-Recorder's Office with the exception of those installed on approved foundation systems, as specified in Section 18551, which are correctly classified as real property and appraised by the real property appraisers. The assessor currently receives listings from the Department of Housing and Community Development (HCD) and local manufactured home dealers of sales of manufactured homes, voluntary conversions of licensed homes to property taxation, and manufactured home situs changes. The staff use these sources to identify and enroll taxable manufactured homes in Solano County.

Our 1996 review indicated some positive revisions to the assessor's manufactured home assessment procedures. The appraisal staff now makes a more concerted effort to assess eligible manufactured home accessory improvements. In addition, the appraisers are adjusting sale prices for personal property. Finally, the assessor plans to develop a market data base specifically for manufactured homes. Although some improvements have been made, there are still some areas in need of revision.

RECOMMENDATION 6: Revise the program for the assessment of manufactured homes by: (1) classifying and entering manufactured homes on the secured assessment roll as personal property; (2) reviewing manufactured homes for declines in value; and (3) adjusting sale prices for park and location influences.

The real property appraisal section is responsible for the assessment of manufactured homes and land in the same ownership. The business property section is responsible for all other manufactured home assessments. We are somewhat concerned that manufactured homes located on land under the same ownership as the manufactured home may be assessed differently than those in rental parks. We therefore suggest that more uniform and thorough program could be maintained if all manufactured homes were assigned to the real property section.

### Classify as Personal Property

The Solano County Assessor-Recorder's staff currently enrolls all manufactured homes as improvements. However, Section 5801 of the Revenue and Taxation Code specifies that manufactured homes are to be assessed as personal property.

The assessor's practice of classifying manufactured homes as real property improvements will affect the amount of taxes due if special assessments are applicable to the particular tax rate area where the manufactured home is located. Special assessments are levies upon real property for the purpose of paying for improvements or services and are based upon the benefits accruing to the property. The special assessments can only be applied to land or the combination of land and improvements. Since manufactured homes are to be assessed as personal property, they are not subject to special assessments.

We recommend that the assessor revise the current manufactured home program, so that manufactured homes are correctly classified as personal property pursuant to Section 5801 of the Revenue and Taxation Code. This will ensure that special assessments will not be erroneously levied against manufactured homes.

### Review All Manufactured Homes for Declines in Value

Revenue and Taxation Code Section 5813 states that the taxable value of a manufactured home shall be the lesser of its base year value, compounded by the annual inflation factor, or its current market value as determined pursuant to Section 110 of the Revenue and Taxation Code.

The current policy in the Solano County Assessor-Recorder's Office is to enroll the present market value when a manufactured home has a change in ownership and then apply the consumer price index (CPI) trending factor each year. The CPI trending factor is mandated by Section 51(a) of the Revenue and Taxation Code, which states in part:

" . . . the inflation factor shall be the percentage change from December of the prior fiscal year to December of the current fiscal year in the California Consumer Price Index for all items, as determined by the California Department of Industrial Relations; provided that the percentage increase for any assessment year determined pursuant to paragraph (1) or (2) shall not exceed 2 percent of the prior year's value."

A decline in the value of a manufactured home is not recognized until the taxpayer applies for a reduction in his or her assessment. The assessor's staff then reviews the property and makes a decision as to the value.

We recommend the assessor's staff conduct a periodic market review of manufactured homes and adjust the taxable value of any manufactured home whose value has fallen below its factored base year value. Adopting a proactive stance such as this would assure that manufactured home owners received the same responsive consideration of declining full cash value that is accorded to other homeowners in Solano County.

#### Adjust Sale Price for Park and Location Influences

The majority of the manufactured homes located on leased land in Solano County are assessed at their full selling price. The sale price is then compared to the NADA (National Automobile Dealer Association's Mobilehome/Manufactured Housing Appraisal Guide) value. In all of the examples we reviewed, the assessor's staff enrolled the reported sale price. It is the staff's opinion that the NADA values are consistently low and therefore are not enrolled. We believe the value difference might be attributable to the site or improper use of the NADA costs. NADA recommends that values shown in the "Pacific" areas and located in California, be factored by 17 percent. It is not clear if the Solano County Assessor's staff is applying that adjustment.

It is not unusual for a manufactured home that is set up in a rental park to sell for more than a comparable unit purchased from a dealer's lot, even when delivery and set-up charges are included in the purchase price. Section 5803 of the Revenue and Taxation Code states in part that the full cash value of a manufactured home should not include ". . . any value attributable to the particular site where the manufactured home is located."

We recommend a study of manufactured home sales be conducted to determine exactly how local marketing practices and location influence manufacture home sale prices in Solano County, and utilization of the market approach when appropriate. We would also suggest using the Assessment Standards Division's Assessors' Handbook Section 531.35 (manufactured home unit cost factors) or another published value guide such as the Kelley "Blue Book" Guide to Manufactured Housing and Mobilehomes when applying the replacement cost approach or market approach to value. This will ensure that any in-park location influence will be excluded from the taxable value of the manufactured home.

## 2. California Land Conservation Act Properties

For the 1994-95 lien date, Solano County had approximately 2,436 parcels encumbered by California Land Conservation Act (CLCA) contracts. These parcels include about 275,442 acres at an assessed value of \$199,024,535.

The assessor's staff is in the process of canvassing all of the CLCA properties. This process involves field reviews in which the appraiser updates records and interviews taxpayers, noting escaped new construction, share rents, compatible uses, and other information. In addition, the staff is rewriting the current questionnaire which is sent to the CLCA owner annually. At the time of our review, share rents and expenses were based on data from old questionnaires. A well-written, updated questionnaire could get a better response from

taxpayers. We recognize and commend the assessor's effort to improve and update his correspondence with the taxpayer.

The Assessment Standards Division's (ASD) sampling of the 1992-93 Solano County assessment roll contained 11 CLCA properties. In seven of the cases, the assessor's enrolled values had significant differences. There were various reasons for these differences; different estimates for economic rent, differing expense charges, different percentages of shares used to compute rents, and the failure to consider a compatible use. There was no pattern of errors to suggest a problem with the assessor's CLCA program, since most of the differences involved judgmental decisions. However, our office survey noted two areas in need of revision.

**RECOMMENDATION 7:** Revise assessment procedures for lands subject to the California land Conservation Act by: (1) properly treating nonliving improvements that are not restricted by CLCA contract; and (2) correcting an error in the computer program used to value living improvements.

#### Properly Treat Nonliving Improvements

During our review of the assessor's CLCA program, we noted instances where the assessor's staff has improperly treated nonliving improvements. Certain nonliving improvements that contribute to the property's income stream, such as vineyard trellis system, are being valued as if they are restricted property subject to Section 423. An income is imputed to the nonliving improvements based on the improvements' current market value and a market derived capitalization rate. This income is then capitalized into an indicator of value using the restricted capitalization rate as provided in Section 423 of the Revenue and Taxation Code. The nonliving restricted value, restricted land value, and restricted living improvement value, are combined in order to arrive at the property's total restricted value. Consequently, this total restricted value is used for comparison purposes when determining whether the property's restricted value, factored base year value, or current market value should be enrolled for the assessment year in question.

This procedure is improper and can result in incorrect assessments. While Section 423(e) of the Revenue and Taxation Code allows the assessor to value certain nonliving improvements as restricted property, this is only the case if the agreement which creates the enforceable restriction specifically provides for such treatment. Enforceable restriction agreements in Solano County do not include such a provision. Therefore, we recommend that the assessor discontinue the current practice of calculating a restricted value for nonliving improvements.

In addition, our review indicated that supplemental assessments are not being issued upon completion of new construction or change in ownership for certain nonliving improvements located on enforceable restricted land. Once again, this would be proper if the improvements were under contract, however, this is not the situation in Solano County and, therefore, the proper procedure is to issue supplemental assessments for those improvements

upon change in ownership or completion of new construction. The point is made clear in Letter to Assessors 83/128 (question and answer 10).

### Computer Program

The Solano County computer program that is used to value CLCA property does not properly account for risk when capitalizing land income. The spreadsheet indicates that land value is multiplied by the State Board provided CLCA yield rate, plus the local tax rate, but no risk rate is added. As a result, values are overstated and an overassessment occurs. The complete capitalization rate should include an element for risk as mandated by Revenue and Taxation Code Section 423(b)(2). The assessor's office establishes risk rates for each neighborhood and their books indicate the rate that is derived. The problem occurs when the actual value is being calculated by the computer. This is a substantial error but it should be relatively easy to correct.

We therefore recommend that the assessor's staff incorporate an element of risk into the total capitalization rate used in the computer program for valuing CLCA properties.

### 3. Possessory Interests

A taxable possessory interest exists whenever a private party has the exclusive right to the beneficial use of real property owned by a public agency.

The assessor has an active program to discover taxable possessory interests. One supervising appraiser is responsible for the review and valuation of all possessory interest accounts. The 1995 lease maintenance list contains 55 government agencies which are contacted periodically for information about taxable possessory interests. The assessor annually contacts each government agency to track any changes on the possessory interest accounts. The Possessory Interest Data Request Report is accompanied by a form letter which cites Section 480.5 of the California State Revenue and Taxation Code and which states that every owner of tax-exempt real property shall report to the assessor the creation, renewal, sublease, or assignment of any lease, license, use permit, or document which conveys the right to use that real property within 60 days of the transaction. The rate of response to the request is 75 percent.

Our review of the possessory interest appraisals in Solano County indicate their possessory interest program is generally in good condition with a few minor exceptions.

### Proper Documentation and Procedures

Our last survey of Solano County revealed that the new possessory interest appraisals are well done, properly documented, and follow established recommended procedures, while the older possessory interest appraisals are poorly documented, short-cut proper procedures, and, overall, do not meet minimum acceptable standards for these specialized property appraisals. Therefore, we suggested in our 1992 survey report that the assessor review and update all the possessory interest appraisals. However, due to time constraints and personnel

shortages, the county assessor has not been able to update the older possessory interest appraisals. They continue to be poorly documented and do not follow proper procedures. We again stress the importance of updating the older possessory interest appraisal files. Once updated, all the possessory interest files will be in good shape and easily maintained.

#### Possessory Interests in Taxable Government-Owned Land

SUGGESTION 6: Fully investigate all taxable government-owned properties that have improvements to determine whether a possessory interest exists.

The county assessor has not fully investigated through field inspection, or by telephone, possible possessory interests on taxable government-owned land (Section 11 land). Section 11 land and improvements, discussed elsewhere, are assessed properly; however, no value is added for possessory interests on Section 11 land.

We reviewed all Section 11 properties with improvements to determine whether any possessory interests existed and found the following:

- a) The Sacramento Municipal Utility District (SMUD) Section 11 properties have possessory interests; however, they are for agricultural use and are exempt, according to provisions in the California Constitution.
- b) We reviewed two parcels owned by the City of Santa Clara. We found that a large portion of each parcel is for agricultural use, but there is a separate lease for each of the two homes on each parcel. It is our opinion that the single-family residences' leases constitute taxable possessory interests.

Our review of the records revealed these parcels are taxed as Section 11 land only; no value is added for the possessory interests. The possessory interest value should be assessed as well as the Section 11 value. The legal limitation on the taxable value of the property is that the current aggregate value of the Section 11 assessment, and all other assessments of the land, may not exceed the current market value of the land.

The assessor should field inspect all Section 11 properties with improvements in order to discover all taxable possessory interests.

#### 4. Water Companies

Water company properties assessed on the local rolls may be municipal systems on taxable government-owned land, water district properties located outside their district boundaries, private water companies regulated by the CPUC, private water companies not regulated by the CPUC, or mutual water associations. The proper classification of water companies is vital in order to determine assessability and the proper valuation method.

### Municipal Water Companies

The Constitution of the State of California, Article XIII, Section 3(b), exempts from taxation property owned by a local government. This includes property owned by city water departments and water districts that are located within city limits or district boundaries. However, a publicly owned water company's property located outside city limits or district boundaries is taxable, if it was taxable at the time it was acquired by the city or district.

In Solano County, municipal water systems and water districts are located within their city limits and districts boundaries and are therefore exempt from taxation.

### Mutual Water Companies

At the time of our survey, we found no records pertaining to mutual water companies in Solano County.

### Private Water Companies

Solano County has only one private water company. We confirmed no others exist by reviewing the water company lists of the County Office of Environmental Health Services, the State Department of Drinking Water, and the California Public Utilities Commission.

**SUGGESTION 7**     Require the private water company to annually file a standard business property statement.

The Solano County Assessor's office has contracted with the Santa Clara County Assessor's office to annually review the value of its private water company. The water company is annually reviewed following proper appraisal procedure. However, we noted that instead of requesting an annual PUC report, the relevant data is filed on an outdated SBE Water Utility Report. This SBE report is no longer a Board prescribed form. The assessor's office should continue to request the data from the water company; however, the reference to a penalty for late filing is not enforceable since the form used is not Board prescribed. We therefore suggest that the assessor's office instead require the water company to file a standard Form AH 571, the annual business property statement, which contains enforceable penalty provisions.

A copy of the PUC report should also be requested periodically. The PUC report details changes that occurred during the previous calendar year in balance sheets, fixed capital in service, and accrued depreciation. The report also includes annual income statements and/or descriptions of all fixed capital in service. Such reports contain the data necessary for developing value indicators for a private water company such as the income approach and historical cost less depreciation (HCLD).

## 5.     Historical Properties



Solano County has four historical sites that qualify under Section 50280.1 of the Government Code for the special assessment procedures prescribed in Sections 439-439.4 of the Revenue and Taxation Code. All four properties are owner occupied single-family residences.

The assessor's office staff has valued the four restricted historical properties by the income approach as required by Section 439.2 of the California Revenue and Taxation Code. The appraisal staff use a worksheet that was designed in the assessor's office and conforms to statutory guidelines.

Two of the properties' assessments were appealed in 1993. The county assessment appeals board established the fair market rent and expenses. Typically, however, economic rents are established by the assessor's staff after conferring with local real estate brokers.

In the 1992 Solano County assessment practices survey, we mentioned an error involving the valuation of a newly constructed garage. The county appraiser had used the replacement cost approach, while according to Section 3 of the Historic Property Preservation Agreement executed by the property's owner, the appraiser should have instead applied the income approach. The assessor's staff have since corrected their mistake and properly revalued the property. We commend the assessor's staff for their effort to conform with the law. Overall, the assessor has an effective program for valuing historical property and we therefore have no recommendation or suggestion for improving it.

#### 6. Taxable Government-Owned Property

The Constitution of the State of California exempts from taxation property owned by a local government, except lands and the improvements thereon, that are located outside of its boundaries and were subject to taxation at the time of acquisition. The authority to tax certain government-owned property is provided by Article XIII, Section 11; hence, such property is frequently referred to as Section 11 property.

Solano County has a total of 88 Section 11 properties. These properties are assessed in compliance with property tax laws, rules, and regulations.

Any government-owned land that is located outside of its agency's boundaries must be valued at the lowest of (1) the 1967 assessed value multiplied by the factor annually supplied by the State Board of Equalization, (2) an assessment based on current fair market value, or (3) the factored base year value. As of the date of our survey, the county assessor had not yet implemented the factored base year value test which became effective on September 1, 1995; however, the assessor is aware of the Assessment Standard's Division's guidance in this area and indicated to our survey team that it would be enforced. In general, current market value does not play a significant role since, in most cases, it far exceeds the value derived by use of the factored 1967 assessed value. Therefore, typically a Section 11 property will be valued at its 1967 value multiplied by the Board-announced factor.

Existing improvements that were taxable when acquired are valued at their full cash value as defined by Article XIII A of the California Constitution. New construction of improvements that replace original improvements must be taxed at the lowest of (1) current market value, (2) full cash value as defined by Article XIII A of the California Constitution, or (3) the highest value ever used for taxation of any improvements that have been replaced. By contrast, any new improvement built on Section 11 land after acquisition by a government agency is exempt.

Our review of Section 11 properties revealed two possessory interests that have escaped assessment. These were discussed in the possessory interest section of the survey report.

## IV. BUSINESS PROPERTY ASSESSMENT

### A. INTRODUCTION

#### 1. General

The business property division of the Solano County Assessor/Recorder's Office is responsible for annually processing more than 10,500 business and agriculture statements, more than 5,300 boats, and over 200 aircraft. The business property division must also appraise a variety of commercial and industrial properties in addition to approximately 500 manufactured homes. This assessment task is accomplished by five auditor-appraisers (including the chief of the business property division) and one full-time clerk. The staffing mix has changed since our survey in 1992; one additional auditor-appraiser position has been allocated but two clerical positions have been eliminated.

#### 2. ASD Sampling Results

The ASD sampling of the 1992-93 local roll included 17 secured and 30 unsecured business property assessments. In 32 of the sampled items county values differed from the values determined by ASD. In 7 of the sampled items, the local roll values exceeded ASD values by \$105,404, while in 25 of the items the ASD staff's values were higher than the county's values by \$11,595,223. Statistically expanded to represent the total local assessment roll for business properties within the county indicate there may have been a total overassessment of \$12,238,791, and a total underassessment of \$128,763,706.

The business property division has undergone a great deal of change since the last survey. Great improvements have been made to the software used for the unsecured roll and the related functions of entering audit results, making changes to the assessment roll, and accessing and updating data regarding unsecured assessments.

Since the 1992 assessments practices survey, the business property division has made outstanding advancements in its data processing system. Each auditor-appraiser, the chief auditor-appraiser, and the business property clerk all have personal computers at their desks. The data processing unit of the county has also substantially upgraded and revised the software for this division. The business property staff have computer access to all accounts that file business property statements. They currently have records for the 1993-94 and 1994-95 tax rolls available. They can retrieve the record of a taxpayer which will show the assessed value by year, any roll changes, and detailed information by acquisition year. The valuation trending tables used by the county are based on ASD's tables, except for a few tables that are an average of two or three ASD tables. The individual trending factors currently used by the county assessor's staff are very similar to the recommended ASD tables.

The data system also includes trending tables that are used to index the reported amounts. They are expressed as a composite percent good figure that is a combination of the factor tables and life tables that are recommended in Assessors' Handbook Section 581,

### Equipment Index Factors.

At the beginning of the valuation cycle it is the responsibility of the audit-appraisal staff to compute this table of composite factors and enter it into the computer system. This can be done at their individual terminals. The computer program also allows a percentage of the total calculated value to be assigned as fixtures, the specific percentage varying with the type of business. Any digression from the standard percentage for each type of business must be input manually by the auditor-appraisers

The data system is designed so that it retains the amounts that are reported yearly on the business property statement. These amounts can then be accessed on the computer terminal. The current year's reported costs can be added and all prior years' reported amounts can be scanned so that only those that vary from the previous year's report need to be updated. The trended values for the current year can then quickly be computed, leaving the updated record in place. This has greatly decreased the entering and processing time for calculating the trended estimate of value based on the costs reported on the business property statements.

## B. AUDITS

The verification of data submitted on the annual property statement is accomplished through the audit program. An audit is a verification process that may be either simple or quite complex. Although the depth of individual audits may vary, certain steps must be followed in every audit to ascertain the validity of reported figures. The audits reviewed during our current survey are of generally good quality.

### 1. Audit Program Monitoring

RECOMMENDATION 8: Develop and maintain an audit log to enable monitoring and evaluation of the audit program.

We were not able, because of the lack of documented control of the audit process, to determine the workload for mandatory audits. We do not know how many mandatory audits should have been done or if they were completed in a timely manner. In conversations with the chief auditor-appraiser we learned that audit logs have not been kept for either mandatory or nonmandatory audits.

Our review included two audits, one of which was a mandatory audit that had not been processed in a timely manner and, as a consequence, the escape assessments for prior years were not assessed. In this instance, a loss of tax revenue occurred for three years of the audit period.

The chief auditor-appraiser first compiles the mandatory audit list, then separates it into five sub-lists. He then distributes one sub-list to himself and one to each of his four auditor-appraisers. He stated that he did not keep a copy of the mandatory audit list but that we

could ask each auditor-appraiser for a copy of their particular assignments. The auditor-appraisers work from their lists and each month they individually make a report of the audits they have completed. The list of completed audits is also given to the chief deputy.

There is no tracking of an audit from the initial assignment through the final disposition of the audit results. This is true for both mandatory and the nonmandatory audits. This lack of oversight has resulted in the aforementioned loss of revenues and an inability for us to either quantify the number of mandatory audits that are assigned for the year or to track their progress for timely completion.

We recommend that the assessor and his staff develop and maintain a comprehensive audit log that would trace the audit from assignment through its final disposition. Such a log should include at least the identity of each taxpayer by account number and name, assignment date, completion date, status, audit results, and the name of the auditor assigned to the account.

Creating and maintaining such a log would prevent the loss of tax revenues due to expiration of the statute of limitations on audit liabilities. It would be a valuable management tool in monitoring each auditor-appraiser's progress. It would also serve as a record of the mandatory audits performed. In addition, the mandatory audit workload for the county could be quantified, the volume of audits assigned and completed could be readily determined, and the assessor could be assured that his staff was meeting the legal requirement to perform mandatory audits.

## 2. Mandatory Audit Program

Section 469 of the California Revenue and Taxation Code mandates that the assessor audit the books and records of any taxpayer whose assessable trade fixtures and business personal property has a full value of \$300,000 or more for four consecutive years. The assessor must audit the books and records of such taxpayers at least once every four years.

### Computerized Mandatory Audit Listing

The Solano County Assessor/Recorder's business property division annually receives a computer listing of all business assessments, both secured and unsecured, with values greater than \$299,999. The listing includes a four year history of each business' assessed values. With the exception of leasing companies, the list does not accumulate and total all individual or separate business locations that are owned by the same taxpayer. The determination must be based on ownership, not by business locations. Both secured and unsecured properties appear on the list only if each individual business account has a value greater than \$299,999. Most multiple location assessments must be manually identified and then manually added to the mandatory audit list. Having to update the list in this tedious manner undermines the purpose of having a computer-generated listing. This inefficient practice can also result in mandatory audit accounts going unidentified and thus unaudited.

RECOMMENDATION 9: Ensure that all mandatory audits are computer identified.

This recommendation was also made in the 1992 survey. The assessor responded then that a revision had been included in the business division software enhancements. Our review of the current mandatory listing and the computer software program that creates it shows that this program has been incorporated only for those companies that are in the business of leasing personal property to other businesses throughout the county.

The present computer system has the capability to include all unsecured properties under single ownership that have multiple locations. The program can do this by using the same method that is used for the leasing companies. This would require a review to locate the accounts with multiple locations. The computer files can then be updated using a common identification code for each individual owner.

We recommend that the assessor assign staff to identify and enter the necessary unsecured property information into the computer. This would reduce the incidence of mandatory unsecured accounts being erroneously omitted from the computer report.

The computer program for secured property cannot now accommodate a program similar to the one used to select multiple location mandatory accounts from the unsecured roll. Secured accounts that have multiple locations but a combined personal property value of \$300,000 or more still must be manually identified.

An enhancement or rewrite of the present data processing program for secured properties is needed to incorporate the type of sorting necessary to include secured properties in the computerized mandatory report. We recommend that such an enhancement be developed and applied to the secured roll listing of business property accounts.

Qualifying Welfare-Exempt Organizations

The welfare exemption is applicable to land, buildings, and personal property that are owned by a nonprofit organization and used exclusively for religious, hospital, scientific, or charitable purposes. In order to qualify for the exemption, both the owner and property must meet the requirements of subdivisions (1) through (7) of Section 214 of the Revenue and Taxation Code.

Administration of the welfare exemption is the joint responsibility of the State Board of Equalization and the assessor. A welfare exemption cannot be granted unless both the Board and the assessor approve the claim. The staff of the State Board of Equalization's Assessment Standards Division (ASD) annually reviews all applications for the welfare exemption and approves or denies the exemption based on the information supplied by the applicant and the assessor. ASD staff occasionally conducts a field review or formal audit of welfare-exempt properties and organizations, but the primary responsibility for verifying the accuracy of the application for exemption, and the eligibility of the property, rests with the assessor's staff.

RECOMMENDATION 10: Include qualifying welfare-exempt organizations in the mandatory audit program.

The computerized listing of mandatory accounts includes welfare-exempt businesses such as hospitals and charitable organizations that report trade fixtures and business properties with full values exceeding \$299,000. The report does not list an “audit year” for any of these accounts; moreover, we found that none had been audited.

We recommend that the welfare-exempt organizations be included in the audit program. This inclusion will allow the assessor’s business property staff to determine whether an organization properly qualifies for exempt status for the year(s) reported and whether there was any unreported property or property belonging to others that should be assessed. Section 469 of the Revenue and Taxation Code sets the parameters of the mandatory audit program and makes no exceptions for welfare-exempt organizations.

3. Nonmandatory Audit Program

A major objective of an audit program is to insure proper reporting on the annual business property statements. The major objective of an audit selection system is to audit those accounts that will produce value changes resulting in tax revenue changes equal to or greater than the cost of auditing. For example, in making a choice between two accounts to audit, the first choice should be the account where a value change is likely to occur. Those accounts showing little or no likelihood of value changes should be considered low priority accounts. Audits of these accounts should be deferred.

SUGGESTION 8: Monitor the nonmandatory audit program by developing and maintaining an audit log.

Today, many county assessor’s office have difficulty complying with the mandatory audit mandates, and consequently, rarely have the resources to perform any nonmandatory audits. It is to the Solano County Assessor-Recorder’s credit that they have been able to keep a nonmandatory audit program functioning. The Solano County auditor-appraisers regularly audit selected or randomly chosen nonmandatory accounts. The criteria for account selection is based upon noted inconsistencies in reporting, consistent late or non-filing of the business property statement, and referrals from leased equipment reports.

A suggested improvement to the nonmandatory audit program is the development and maintenance of an audit log that will reflect on a yearly, monthly, and weekly basis to whom the audits were assigned, when they were completed, and the final disposition of an audit.

The need for proper controls (audit log) was discussed under the mandatory audit section of this report. It has been stressed again here because of its obvious benefits as a management tool.

#### 4. Offset of Audit Results

Audits performed by the business property division are usually for at least a four year period. It is not unusual for some of the years to result in escaped property and other years to result in an overassessment that would justify a claim for refund. Revenue and Taxation Code Section 533 provides that when the different years within the audit period result in both escapes and refunds, and the refund is not barred by Section 5097, the tax refunds shall be an offset against escapes (proposed tax liabilities) including penalties and interest.

RECOMMENDATION 11: Follow statutory requirements when enrolling audit results and offset overassessments with underassessments.

Upon completion of an audit, the audit summary listing the escaped assessment or refund (overassessment) by year is sent to the county auditor's office. No offset schedule is included. If there are escapes and refunds on an audit, the escapes and the refunds are processed separately. This does not meet the requirements of Section 533, and it is possible a taxpayer could obtain a refund check while having outstanding liabilities for other years.

We recommend that the auditor-appraisers complete an offset schedule to be included with the audit summary sent to the auditor's office. It is also necessary that the assessor's office coordinate with the auditor's office to establish a procedure that will assure that the offsets of audit results are properly assessed.

The assessor's office will be in compliance with the requirements of Section 533 if the above procedure is implemented.

#### C. PROPERTY STATEMENTS

Business property assessments are based upon data submitted by taxpayers on the annual business property statements. The more accurate the data on the statements, generally the more accurate the assessment roll.

Statewide, approximately 95 percent of all business property accounts are classified as nonmandatory. With so many accounts not being audited, proper reporting is essential. A county assessor may improve taxpayer reporting on the annual property statements by insuring that before his or her office accepts a signed property statement, the person signing the property statement is authorized to do so as explained in the property statement's instructions.

##### 1. Authorized Signatures

Property Tax Rule 172 requires that property statements filed on behalf of a corporate assessee be signed by an officer, or by an employee or agent whom the board of directors had designated in writing to sign such property statements on behalf of the corporation. When signed by an agent or employee other than a member of the bar, a certified public



accountant, a public accountant, or a duly appointed fiduciary, the assessee's written signature authorization must be filed with the assessor. In addition, Property Tax Rule 172(d) states:

"Neither the assessor nor the Board shall knowingly accept any signed property statement . . . that is not executed in accordance with the requirements of this section."

By requiring such written authorization to be filed, an assessor will increase the accountability of whoever signs and files the annual property statement. The corporate assessee will realize that the designated employee or agent is charged with the important duty of accurately and fully reporting all business property to the assessor. The written authorization calls attention to the fact that the corporate assessee is liable for any consequences of the employee's or agent's reporting errors.

RECOMMENDATION 12: Screen property statements more closely for proper signatures on property statements filed on behalf of corporations. Reject those that do not meet regulatory requirements.

In our 1992 survey of Solano County, we strongly recommended the need for adequate screening of proper signatures. The assessor has partially complied with our recommendation. The business property statements are screened for a signature. Those with no signature are returned and a photocopy is kept so if the assessee fails to return the statement, there is current data on file from which to base an estimated assessment.

The assessor's staff does not, however, screen for authorized signatures or maintain a list of authorized agents. Of the various property statements we reviewed, several were found to have been signed by other than a qualified or authorized person. While these persons signing the form may be "duly appointed fiduciaries" within the meaning of Property Tax Rule 172, unless the assessor has express written authorization on file, he will not be certain of this.

One way to handle the agent's authorization would be to have a copy filed inside the property statement folder with all of the originals maintained elsewhere, perhaps in loose leaf binders. Screening the property statements more closely for proper signatures may not guarantee improvement in the accuracy of the data reported on the property statements but, short of auditing all accounts that file business property statements, we believe it is a very effective tool for the assessor.

Incomplete business property statements should not be accepted. They should be returned. A copy should be retained so that the assessment can be made if the taxpayer does not timely file the properly completed form. Any business property statements that are not timely filed must be assessed the 10 percent penalty that is required by Section 463 of the Revenue and Taxation Code.

## 2. Property Statement Review

In our 1992 Solano County survey, we noted the assessor was flagging for review any account which varied by 10 percent or more from the previous year. We informally suggested the assessor increase the computer review for the calculated values on the annual property statements by adding a dollar amount to the percentage limit. The assessor has improved this property statement review procedure. Currently, any account with a 10 percent difference from the previous year or an amount greater than \$50,000 will be reviewed by an auditor-appraiser. With the added dollar amount, the assessor ensures that any large processing errors that would result in tax liability of approximately \$500 or more will be discovered.

### 3. Discovery

Timely discovery of taxable property is one of the basic functions of any county assessor throughout the state. It is a never-ending process made difficult by the rapid turnover of many small businesses, changes in ownership, situs changes, etc. It is a formidable task to maintain accurate current listings of assessable business properties. It is imperative that an efficient and effective discovery program be in place. Common methods of discovery are field canvassing, landlord listings of tenants and subtenants, telephone directories, business licenses, newspapers, referrals from other counties, sales tax permit cards, and the use of the business property statement itself.

SUGGESTION 9: Expand the use of the business property statement as a tool for discovery.

Our review disclosed three 1995 property statements that showed equipment reported in years prior to the date of the initial filing or the reported date of starting the business. These business property statements should have been reviewed upon receipt and a property statement mailed to the taxpayer for each of the years that equipment was reported prior to the business starting date.

There were also examples of 1995 property statements that had been accepted when the data requested on the return was not complete. For instance, the taxpayer who owned the land and structures did not complete Schedule B, on which land and land improvements are reported. This section allows the staff of the assessor's office to see whether taxpayers who own their own property have added improvements during the year, or if taxpayers who lease their property have added tenant improvements. In both of these instances an additional assessment would be due.

There are many other instances where the business property statement could be mailed to taxpayers to assist in the discovery process of the assessor's office. A search should be made through newspapers, telephone directories, and other sources mentioned above, to find businesses not currently on file. Mailing a business property statement to such prospects could produce additional discovery of business properties for the assessor's office.

We recommend that a procedure to initiate mailings from currently filed business property statements be incorporated into the property statement review done by the auditor-

appraisers. In addition, a full or part time clerical staff member should be trained to investigate other sources of discovery and initiate new property statement mailings.

#### D. CLASSIFICATION

Proper classification of property is required by law. Because different classes of property are by law treated differently, it is essential that property values entered onto the roll are correctly classified. Sections 1 and 2 of Article XIII A of the California State Constitution mandate that different valuation procedures be used for real property than for personal property.

For example, real property (or portions thereof) is to be reappraised when (1) a transfer of ownership occurs, (2) the property is rehabilitated, (3) new construction occurs, or (4) the full value declines below the factored base year value. In the absence of these activities, the taxable value increase for real property is limited to the annual change in the California Consumer Price Index or 2 percent per year, whichever is lower. In addition, real property values are to be reviewed for possible declines in value so that the comparisons can be made to establish the proper assessment level.

In contrast, tangible personal property is valued each year as of the lien date at market value. The annual amount of value changes is not limited, nor does a change in ownership determine the date of reappraisal. Article 13 Section 2 of the California Constitution states that with the concurrence of the legislature, (as outlined therein), the legislature may classify such personal property for differential taxation or for exemption. This gives the legislature wide latitude in matters concerning taxation of personal property.

Because of the differing valuation procedures, it is important to identify fixed equipment and classify it as fixtures. Fixtures are considered by law to be real property and must be subjected to the same methods of valuation and comparison as other real property.

**RECOMMENDATION 13:** Classify building fixtures and fixed machinery and equipment as improvements and classify structure items as real property on the tax roll.

When a business property statement is received, it is assigned to an auditor-appraiser who reviews the items reported and determines the method of valuation and the classification of each column of reported costs. Two or three taxpayers have requested that the county show the fixtures (improvements) separately on the tax roll. This is done only for the taxpayers who have requested it. For the rest of the business property statements, all items being valued by the business property division are combined and entered onto the roll as personal property. There are numerous large manufacturing businesses, retail stores, and restaurants within the county that have no machinery and equipment allocated to the fixture category.

On Schedule B of the business property statement there are two columns where the tenant or taxpayer is to report improvements to the building they occupy. One column is for fixture items and the other is for structural items. The fixtures amount is valued by trending, as equipment is, but is also entered on the roll as personal property, rather than as improvements.

The structures amount on the unsecured property statements is also valued by the business property division. This structure amount is valued through the application of the California Consumer Price Index factor used for valuing real property. Again, the total value is included in personal property on the roll. When the structure amount is valued, it is not analyzed to determine whether it includes nontaxable items such as repairs and maintenance.

In the aforementioned circumstances four things are clear: (1) fixture amounts that are included in machinery and equipment are not properly classified as improvements and are not enrolled according to the law; (2) the fixtures, reported as fixtures on Schedule B of the property tax statement are also enrolled as personal property rather than improvements; (3) some fixtures and structures may not be valued at the lower of market value or the factored base year value as required by Article XIII; and (4) the structures reported on the business property statement are not properly analyzed for nontaxable new construction such as repairs or maintenance.

Because of the misclassification of fixtures, the bill sent to the taxpayer does not always reflect the correct value or the proper classification of fixtures or improvements. The taxpayer cannot properly determine from his bill how much has been assessed for fixtures, improvements, or personal property. In addition, when structures are enrolled as personal property the mandatory audit selection report may be in error. The additional value added because of overstating the personal property could cause the combined value of personal property and fixtures to be in excess of \$300,000, when it otherwise would fall below this criteria for a mandatory audit. In addition, when new construction occurs in a building, there is often the need to make a supplemental assessment; however, the business division does not make supplemental assessments. Thus, misclassification of the structures results in the escape of new construction from supplemental assessments.

The current data processing system allows for a percentage of machinery and equipment to be classified as fixtures and input as a percentage for each business code. This should be done by the business property division prior to the processing of the business property statements each year. If after review or audit the actual fixture amount included in machinery and equipment is found to differ significantly from the programmed percentages, the auditor-appraiser can enter an actual percentage for an individual business. This would be done at the time the business property statement is reviewed.

We recommend that the factors for fixtures be computed by the business property division staff and added to the computer program currently in place. Fixtures included in the building and reported on Schedule B of the business property statement should be assessed on the roll as fixtures, i.e., improvements. Implementation would ensure that the enrolled value conforms to the law correctly reflects the status of the property being appraised, on the roll, and the taxpayer's bill.

We recommend that structures be entered onto the roll as real property and that they be analyzed before they are assessed to determine whether they are an addition to the real property or just repairs or remodeling. This problem would be solved if the valuation of tenant

improvements was assigned to the real property division. We have made a formal recommendation elsewhere in this survey concerning the valuation of tenant improvements.

#### E. CHANGE IN OWNERSHIP

A thorough audit process must address the subject of change in ownership. There are two important considerations that need to be addressed. They are as follows:

1. Section 64(c) of the Revenue and Taxation Code provides that when a change in control occurs in a legal entity through the transfer of stock, partnership interest, limited liability interest or ownership interest, then the purchase or transfer of that stock or interest shall be a change in ownership of property.
2. Section 64(c) of the Revenue and Taxation Code provides that the creation or transfer of a lease of real property with a term of 35 years or more is a change in ownership. In addition, the termination of a lease that had an original 35 year term or more, or the transfer of a lessor's interest in taxable real property subject to a lease with a remaining term (including renewal options) of less than 35 years, is also a change in ownership.

Both of the above circumstances would trigger a reappraisal of any real property owned by the acquired legal entity.

RECOMMENDATION 14: Document changes in ownership in the audit narrative and workpapers and provide such information to the real property division of the assessor's office.

In the 1992 survey report a similar recommendation was made that the audits include confirmation of changes in ownership and that the audit checklist incorporate direct questions about change in ownership that require a yes or no notation or other written response. The assessor agreed that these changes would be made. Based on interviews with the chief auditor of the business property division, confirmation of changes in ownership is currently a requirement only for some of the larger audits. The audit checklist includes a section listing the change in ownership requirements, but does not require that any direct questions be answered.

We recommend that the audit program be expanded to include documentation regarding changes in ownership in all audits and that supporting documents be retained in all audit files. Suggested documentation would include copies of the particular state income tax forms which provide such data. For corporations, this is the form 100, Schedule E, and for partnerships it is Form 565, Schedule K-1. Verification of leased real property with a term of 35 years and over should be verified by copies of the pertinent parts of the lease. The audit checklist should be revised to include direct questions regarding change in ownership circumstances and referred to the proper section of the assessor's office for processing.

#### F. COMPUTER VALUATION METHODOLOGY

For the 1995 lien date, the assessor appropriately valued computers by using the Board-recommended factors as contained in LTA 95/26. The 1996 assessment roll had not been completed when our fieldwork for this survey concluded in April 1996.

## THE ASSESSMENT SAMPLING PROGRAM

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing 1/ activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at 1 percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

The Board, in order to meet its constitutional and statutory obligations, focuses the assessment sampling program on a determination of the full value of locally taxable property and eventually its assessment level. The purpose of the Board's assessment sampling program is to review a representative sampling of the assessments making up the local assessment rolls, both secured and unsecured, to determine how effectively the assessor is identifying those properties subject to revaluation and how well he/she is performing the valuation function.

The assessment sampling program is conducted by the Board's Assessment Standards Division (ASD) on a five-year cycle and described as follows:

- (1) A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the counties to be surveyed.
- (2) These assessments are stratified into three value strata 2/, identified and placed into one of five assessment categories, as follows:
  - a. Base year properties -- those properties the county assessor has not reappraised for either an ownership change or new construction since the previous ASD assessment sampling.

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1/ The term "assessing" as used here includes the actions of local assessment appeals boards, the boards of supervisors when acting as boards of equalization, and local officials who are directed by law to provide assessment-related information.

2/ The three value strata are:

1. \$1 to \$199,999;
2. \$200,000 to \$1,999,999;
3. \$2,000,000 and over.

- b. Transferred properties -- those properties where a change in ownership was the most recent assessment activity since the previous ASD assessment sampling.
  - c. New construction -- those properties where the most recent assessment activity was new construction added since the previous ASD assessment sampling.
  - d. Non-Proposition 13 properties -- those properties not subject to the value restrictions of Article XIII A.
  - e. Unsecured properties -- those properties on the unsecured roll.
- (3) From the assessment universe in each of these fifteen (five assessment types times three value strata) categories, a simple random sampling is drawn for field investigation which is sufficient in size to reflect the assessment practices within the county. (A simple nonstratified random sampling would cause the sample items to be concentrated in those areas with the largest number of properties and might not adequately represent all assessments of various types and values.) Because a separate sample is drawn from each of these assessment types and value categories, the sample from each category is not in the same proportion to the number of assessments in every category. This method of sample selection causes the raw sample, i.e., the "unexpended" sample, to overrepresent some assessment types and underrepresent others. This apparent distortion in the raw sampling is eliminated by "expanding" the sample data; that is, the sample data in each category is multiplied by the ratio of the number of assessments in the particular category to the number of sample items selected from the category. Once the raw sampling data are expanded, the findings are proportional to the actual assessments on the assessment roll. Without this adjustment, the raw sampling would represent a distorted picture of the assessment practices. This expansion further converts the sampling results into a magnitude representative of the total assessed value in the county.
- (4) The field investigation objectives are somewhat different in each category, for example:



- a. Base year properties -- for those properties not reappraised since the previous ASD assessment sampling: was the value properly factored forward (for the allowed inflation adjustment) to the roll being sampled? was there a change in ownership? was there new construction? or was there a decline in value?
  - b. Transferred properties -- for those properties where a change in ownership was the most recent assessment activity since the previous ASD assessment sampling: do we concur that a reappraisal was needed? do we concur with the county assessor's new value? was the base year value trended forward (for the allowed inflation adjustment)? was there a subsequent ownership change? was there subsequent new construction? was there a decline in value?
  - c. New construction -- for those properties where the most recent assessment activity was new construction added since the previous ASD assessment sampling: do we concur that the construction caused a reappraisal? do we concur with the value enrolled? was the base year amount trended forward properly (for the allowed inflation adjustment)? was there subsequent new construction? or was there a decline in value?
  - d. Non-Prop 13 properties -- for properties not covered by the value restrictions of Article XIII A, do we concur with the amount enrolled?
  - e. Unsecured properties -- for assessments enrolled on the unsecured roll, do we concur with the amount enrolled?
- (5) The results of the field investigations are reported to the county assessor, and conferences are held to review individual sample items whenever the county assessor disagrees with the conclusions.
  - (6) The results of the sample are then expanded as described in (3) above. The expanded results are summarized according to the five assessment categories and by property type and are made available to the assessment practices survey team prior to the commencement of the survey.

One of the primary functions of the assessment practices survey team is to investigate areas of differences disclosed by the sampling survey data, determine the cause and significance of the differences, and recommend changes in procedures that will reduce or eliminate the problem area whenever the changes are cost effective or are required by legal mandate. Consequently, individual sample item value differences are frequently separated into segments when more than one problem is identified, and the results expanded and summarized according to the causes of the differences. Much of the support for the Assessment Standards Division's recommendations in the form of fiscal and numerical impact is drawn from the expanded sample data, and statistics relating to specific problems have been incorporated in the text of this report.

Emphasis is placed on factors directly under the county assessor's control. Differences due to factors largely beyond the county assessor's control, such as (1) conflicting legal advice, (2) construction performed without building permits, (3) unrecorded transfer documents, (4) assessment appeals board decisions, and (5) factors requiring legislative solution are specifically identified in the text when these problems are reflected in the statistics.

## STANDARDS CONTROL UNIT FUNCTIONAL DESCRIPTION

The standards control unit is responsible for the following functions:

(1) Quality of Appraisals

The unit shall annually audit a representative sampling of both real and personal property appraisals to determine the quality of the appraisals performed by the valuation staff.

(2) Internal Audits

The unit shall perform internal audits, on a scheduled basis and as directed by the assessor, to determine adherence by divisions, units, and sections to departmental policies and operating procedures. This should include an analysis of work systems to determine the efficiency and effectiveness of the systems.

Gather workload information and units worked per employee and establish work standards. Recommend changes in methods and procedures.

(3) Training

Disseminate county training information to the entire assessor's staff. Prepare an annual training program for the technical and clerical staff. Maintain all training records.

(4) Manuals

Revise operations manual as required. Assist in the preparation and distribution of administrative directives.

(5) Forms Control

Review and approve requests for new forms and modification of existing forms. Prepare, edit, and approve final proof copies of new revised forms. Supervise preparation of form control cards, assignment of form numbers, and maintenance of form folders.

(6) Time-Accounting/Management-Information System

Developing and installing an efficient time-accounting system is considered by many to be essentially a one-time effort. Experience has shown that it must be continuously monitored to determine if it is meeting current needs. Changes in laws and procedures may require time-accounting system changes.

(7) Electronic Data Processing Coordination

Act as liaison between the data processing center and the assessor's office, aid in the development of new systems, monitor efficient of present systems and coordinate changes, aid in the resolution of daily computer program problems, and control the design of computer input forms.

(8) Questionable Transfer Transactions

Although most transfer deeds can be processed by the administrative division, there are occasionally some which require extensive research to determine whether or not they constitute an assessable transaction. Such deeds may require legal opinions.

Standards control should be assigned responsibility for the research and resolution of these problem deeds.

(9) Legislative Analysis

Analyze and interpret new and pending legislation affecting the assessor's functions. Seek legal guidance from State Board of Equalization and county legal staffs when required. Report changes and recommend action and methods to effect implementation. Monitor implementation to assure that legislative mandates are being met.

ASSESSOR'S

RESPONSE

TO

BOARD'S

RECOMMENDATIONS

# SOLANO COUNTY ASSESSOR/RECORDER

MONA BIHL  
CHIEF DEPUTY  
ADMINISTRATION

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600 TEXAS STREET  
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ROBERT BLECHSCHMIDT  
ASSESSOR/RECORDER

January 27, 1997

RECEIVED

FEB 03 1997

Richard Johnson, Chief  
State Board of Equalization  
Assessment Standards Division MIC 64  
P.O. Box 942879  
Sacramento CA 94273-0064

Policy, Planning & Standards Div.  
State Board of Equalization

Re: 1995/96 Assessment Practices Survey

Dear Mr. Johnson:

Pursuant to Section 15645 of the California Government Code, enclosed is the Solano County Assessor/Recorder's Office response to the 1995/96 Assessment Practices Survey.

I would also like to express my thanks to the survey team for the professional and courteous manner in which they conducted the survey. Their comments and advise have provided positive feedback to our staff in their efforts to produce a complete and accurate roll.

Cordially,

ROBERT BLECHSCHMIDT  
Assessor/Recorder

SOLANO COUNTY 1995/96  
SURVEY RESPONSE

1. Assign a high-level appraiser the duties of standards and quality control.

We are currently implementing a procedure with the Chief Deputy Assessor/Recorder-Administration to accomplish the same goals.

2. Implement a positive response system to insure coordination between the business property and real property divisions.

We concur and are reviewing this procedure to ensure a positive response.

3. Include the caption required by Section 533 of the R & T Code on all applicable escape assessments.

This will be included in the current computer subsystems enhancement project.

4. Increase the utilization of and follow up on the Change in Ownership Statement; require penalties for failure to file statements timely.

We get an excellent response to transfers requiring PCORs. We are considering programming changes that would accomplish the penalty portion of this recommendation.

5. Revise procedures for assessing tenant improvements.

Tenant improvements are best handled by the Business Division, they have more access to the cost detail of reported improvements on the BPS than the Real Estate Division. They are owned by the tenant and add value directly to the business. The BPS instructions specifically state that repair costs should not be reported. Delay in processing occurs if the submitted information has to be routed to the Real Estate Division when the auditor could easily call the taxpayer or accountant for clarification on what the reported tenant improvement costs represent (repair, remodeling, etc.).

6. Revise the program for the assessment of manufactured homes by: (1) assigning all manufactured home assessments to the real property section; (2) classifying and entering manufactured homes on the secured assessment roll as personal property; (3) reviewing manufactured homes for declines in value; and (4) adjusting sale prices for park and location influences.

The real property section appraises manufactured homes installed on permanent foundations. All other manufactured homes not permanently affixed to the land are assessed by the business property section by using both the NADA cost approach and market analysis. We agree with items 2, 3, and 4.

7. Revise assessment procedures for lands subject to the California Land Conservation Act by: (1) properly treating nonliving improvements that are not restricted by CLCA contract; and (2) correcting an error in the computer program used to value living improvements.

We agree and have corrected this procedure.

8. Develop and maintain an audit log to enable monitoring and evaluation of the audit program.

We are considering a program to computerize the audit assignments for easier monitoring and evaluation.

9. Ensure that all mandatory audits are computer identified.

They are identified by multiple account number.

10. Include qualifying welfare-exempt organizations in the mandatory audit program.

We find no benefit from auditing exempt non-profits, churches, thrift stores, etc.

11. Follow statutory requirements when enrolling audit results and offset overassessments with underassessments.

We concur with this recommendation but the Auditor-Controller is not able to produce one tax bill or refund for the net amount.

12. Screen property statements more closely for proper signatures on property statements filed on behalf of corporations. Reject those that do not meet regulatory requirements.

We are already doing this. We make copies for processing, then return the original statement for proper signatures.

13. Classify building fixtures and fixed machinery and equipment as improvements and classify structure items as real property on the tax roll.

We concur with this recommendation.

14. Document changes in ownership in the audit narrative and workpapers and provide such information to the real property division of the assessor's office.

We concur.